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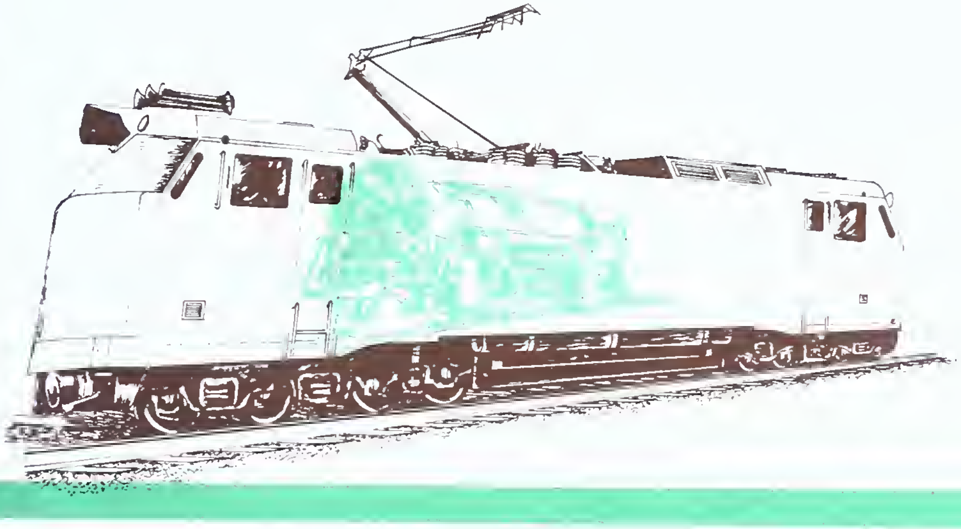
Pennsylvania's
LAN
FOR A BALANCED
ASTERN RAIL SYSTEM



Milton J. Shapp
Governor

Commonwealth of Pennsylvania

Date 9/13/76

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PLAN
FOR A BALANCED
EASTERN RAIL SYSTEM

MILTON J. SHAPP

Governor

Commonwealth of Pennsylvania

February, 1975

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nited States Railway Association

Staff assistance, Office of State Planning and Development
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Publication assistance, Pennsylvania Department of Transportation
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FOREWORD

Federal planners at the United States Railway Association are seriously considering abandonment of tens of thousands of rail users along thousands of miles of "potentially excess" rail lines. They are also considering the merger of all bankrupt eastern railroads into a giant monopoly that will supposedly be the "private enterprise solution" to today's rail crisis.

Such a solution will cost billions of public dollars without meeting the public need for rail service.

In contrast, Pennsylvania's Plan for a Balanced Eastern Rail System is a proposal that will restore balance and competition among the Region's railroads, preserve patterns of service, and rebuild and modernize all railroads in the nation through a self-liquidating Trust Fund

This plan demonstrates that preserving and improving the quality of railroad transportation in America today need not be complicated. Nor need it be a constant drain on the public treasury as are the bailouts of Penn Central.

The need for this plan is apparent: rail freight service is vital to thousands of industries which provide employment to hundreds of thousands of our citizens. Without rail service these industries will be disrupted--many of them forced to relocate out of established communities, further worsening the current deep recession.

It is axiomatic that throughout history economic development has been preceded by development of efficient transportation systems. Likewise, disruption or destruction of those systems has been the prelude to commercial disaster, unemployment and related economic misfortune. Ignoring these realities would be the height of folly.

Wholesale destruction of our rail system would be such folly, but it must not be our national policy. This plan shows that it need not be.

PENNSYLVANIA'S PLAN FOR A BALANCED RAIL SYSTEM

The opportunity to create balanced, viable rail systems in the Northeast and Midwest exists despite the bankruptcy of Penn Central and smaller railroads. Such systems can be financed through existing legislation and enactment of a self-liquidating Rail Trust Fund. They can be operated profitably, still provide high levels of service, and support continued development of the regional economy.

But to be profitable they must not be based on destroying the existing railroads, or elimination of rail service to communities and businesses dependent on it. Restructuring need not and should not cause large scale economic, social or environmental problems.

Unfortunately, the current federal approach of the United States Railway Association will not promote sufficient levels of service to many areas, communities or shippers; it will not support regional development; it will not produce a profitable system to operate, and it will destroy any future chance of having viable rail service for the Northeast quadrant of the United States.

It is the Commonwealth's position however, that a properly restructured rail system can:

1. preserve and improve rail service where there is present or potential demand;
2. rehabilitate and modernize main lines, terminals, branch lines, rolling stock and classification yards;
3. preserve and extend rail service to major markets, and insure shippers access to alternate competitive routings;
4. provide an organizational structure to produce improvements in passenger service;
5. create individual operating companies which optimize economies of modern management (i.e. neither so small that they cannot attract good managers nor so large that they are unmanageable); and
6. Provide a balance among railroads so that they can compete on a profitable basis without disruption of existing major routes.

None of the five plans presented in the United States Railway Association (USRA) Annual Report appears to meet the above criteria or the goals of the Regional Rail

Reorganization Act established by Congress. (For a detailed analysis of the USRA proposals see Chapter II.)

Pennsylvania's proposed plan, on the other hand, will achieve these goals by organizing three new rail entities and by strengethening all the solvent carriers in the region. Financing will be accomplished by creation of a United States Rail Trust Fund, thereby eliminating the need for nationalization or large outright expenditure of public funds.

The five major elements of this plan are as follows:

I. Provision for the preservation, rehabilitation and modernization of lines owned by all rail carriers, whether solvent or bankrupt, through a U.S. Rail Trust Fund.

II. Establishment of two new, balanced rail systems, one based on the Great Lakes route from Boston-New York to Chicago, and the other on the Keystone corridor, New York-Philadelphia to Chicago.

III. Creation of a Northeast Corridor Authority (NCA) to be responsible for all passenger operations (both commuter and inter-city) along the East Coast.

IV. The strengthening of the Erie-Lackawanna, Delaware & Hudson and Boston & Maine roads by addition of key links in the East and Midwest.

V. Strengthening and preserving the integrity of Lehigh Valley, Reading, Central of New Jersey and Lehigh and Hudson River Railroads to preserve access to seaboard markets for Chessie and Norfolk & Western and to protect local rail service in western New York, eastern Pennsylvania and New Jersey.

I. THE RAIL TRUST FUND (RTF)

The Rail Trust Fund would be a government-sponsored, self-liquidating investment program to rehabilitate, modernize, expand and improve service of the nation's railroads. It would provide the $12.9 billion in grants needed by all carriers for track rehabilitation, electrification, construction of new yards and terminals, and extension of existing routes and lines. The RTF would be patterned after the successful U.S. Highway Trust Fund in which a small user charge on gasoline, tires and accessories has been collected in order to finance the entire investment of the Interstate Highway program in the United States in only 18 years.

Funds for the grants would come from long term borrowings backed by the U.S. Government and amortized by means of a five percent surcharge on all freight revenue. The surcharge would replace the present 10 percent surcharge allowed last summer by the Interstate Commerce Commission (ICC) to pay for deferred maintenance. Thus, the RTF could be implemented at lowered cost to shippers and with no direct cost to the U.S. Government.

Each Railroad in the nation would receive a basic entitlement of up to 90 percent of the Trust Fund grants based on the railroad's share of total freight revenues. The remaining funds would be made available to meet special needs, for emergencies, and for demonstration projects. Preliminary estimates of railroad needs, compiled by the Pennsylvania Office of State Planning and Development, are as follows:

Rehabilitation of Road and Track	$ 6.9 billion
Electrification	3.2 billion
Modernization and Expansion of Roadway and Structures	1.9 billion
Modernization of Yards and Terminals	.9 billion
TOTAL	**$12.9 billion**

Electrification alone would produce enormous economies in the railroad industry. A recent technical study prepared for the Government-Industry Task Force on Electrification concluded that an electrification program for these lines could produce some $360 million (discounted to present value) in savings by the year 2000. Electrification would permit the use of coal-generated power for moving trains, and one recent study estimated that a program to electrify 22,000 miles could save almost 60 million barrels of oil annually. It should be noted that it is now possible to use bituminous coal for power generation and to eliminate over 90 percent of the sulphur dioxide emissions by a newly-developed stack scrubbing process.

In addition, a revolving loan fund would also be created to finance $1-2 billion in purchases of freight cars and engines at moderate rates. The RTF surcharge will be sufficient to establish this rolling stock revolving fund.

A full description of the Rail Trust Fund is presented in a booklet available at no charge from the Governor's Office, Commonwealth of Pennsylvania, Harrisburg, Pennsylvania 17120 (phone 717-787-2500).

II. SEPARATION OF THE PENN CENTRAL INTO THE KEYSTONE AND GREAT LAKES RAILROADS

The separation of Penn Central into two railroads built primarily around (1) the old Pennsylvania main line, from New York-Philadelphia to Chicago, and (2) the old New York Central main line, Boston-New York to Chicago, would be a major step toward the establishment of a balanced regional transportation system. (At a conference of representatives of 10 states in the Northeast-Midwest region held last December 4th, there was unanimous agreement with the principles of this proposal.)

The two railroad companies would operate property now held by the bankrupt Penn Central but there would be several key differences.

1. Since each of the operating entities would be approximately half as large as Penn Central, they would be more manageable and efficient. Even without rebuilding facilities over the long run the quality of service would improve simply by making the carriers more manageable.
2. Healthy competition would be restored to markets where competition was eliminated by the merger of the New York Central and Pennsylvania railroads.
3. The scale of the resulting companies would be such that there would be little danger of overwhelming the other railroads in the region.

Map No. I (centerfold) shows one recommended way of restructuring the present Penn Central into the proposed major routes of the Keystone and Great Lakes railroads. The map is schematic only and does not represent all track which would be included in the new carriers; nor does it represent track assignments on routes since in some cases coordination between the carriers would mean that more than one carrier could run over the same track.

These routes follow generally those of the old Pennsylvania and the old New York Central lines. The Keystone would be built around the Keystone Corridor from the New York-Philadelphia area to Chicago and would reach major rail centers in Northern Jersey, Baltimore, Washington, and Norfolk on the East Coast; Buffalo, Erie, Pittsburgh, Cleveland, Columbus, Toledo, Detroit and St. Louis in the Midwest. The Keystone route would reach present major gateways such as Washington, Hagerstown, Md., Buffalo, and Norfolk, Va. in the East, and Chicago, Peoria, Ill., Detroit, St. Louis, Louisville, and Cincinnati in the West. It would connect with New England

TABLE 1

MAJOR INTERCHANGES AND GATEWAYS AND IMPORTANT CONNECTING RAILROADS

Gateway	**Connections**
Washington, D.C.	Southern Richmond Fredericksburg & Potomac
Hagerstown, Md.	Baltimore & Ohio Western Maryland Norfolk & Western
Wilkes-Barre, Pa.	Delaware & Hudson
Buffalo, N.Y.	Canadian National Toronto, Hamilton & Buffalo Norfolk & Western
Connellsville, Pa.	Baltimore & Ohio Norfolk & Western Pittsburgh & Lake Erie Western Maryland
Norfolk, Va.	Seaboard Coast Lines Southern
Charleston, W. Va.	Baltimore & Ohio Chesapeake & Ohio
Chicago, Ill.	Santa Fe Burlington Northern Milwaukee Road Chicago & Northwestern Rock Island Soo Green Bay & Western
Peoria, Ill.	Burlington Northern Chicago & Northwestern Illinois Central Gulf Rock Island
St. Louis, Mo.	Burlington Northern Chicago & Northwestern Illinois Central Gulf Louisville & Nashville Missouri-Kansas-Texas Missouri Pacific Rock Island St. Louis-San Francisco St. Louis Southwestern

TABLE 1 (Cont'd.)

MAJOR INTERCHANGES AND GATEWAYS AND IMPORTANT CONNECTING RAILROADS

Gateway	Connections
Evansville, Ind.	Louisville & Nashville Southern Illinois Central Gulf
Louisville, Ky.	Illinois Central Gulf Southern Louisville & Nashville
Indianapolis, Ind.	Illinois Central Gulf Louisville & Nashville
Cairo, Ill.	Illinois Central Gulf Missouri Pacific
Cincinnati, Ohio	Louisville & Nashville Southern
Detroit, Mich.	Grand Trunk Western Canadian National Canadian Pacific
Montreal, Can.	Canadian National Canadian Pacific

railroads at Wilkes-Barre, Pa. Table 1 lists major connections at these points.

The Great Lakes railroad would be based on the former New York Central from Boston-New York to Chicago and would serve major markets at Pittsburgh, Columbus, Dayton, Cincinnati, Cleveland and Detroit. The Great Lakes carrier would serve present major gateways such as Buffalo, and Montreal, in the East and Chicago, Peoria, Ill., St. Louis, Cairo, Ill., Evansville, Ind., Indianapolis, Cincinnati, Charleston, W. Va., and Connellsville, Pa. in the Midwest.

The Great Lakes railroad would also serve southern New England over portions of the old New Haven railroad, serving points such as New Haven, and Hartford, Ct., and Providence, R.I.

A configuration such as this would also preserve competition to markets across the region where the old PRR and NYC competed. A list of principal major markets is contained in Table 2.

TABLE 2

PRINCIPAL MAJOR MARKETS SERVED BY THE PENNSYLVANIA RAILROAD AND NEW YORK CENTRAL RAILROAD PRIOR TO MERGER

ST. LOUIS, MO.

CHICAGO, ILL.
PEORIA, ILL.

GARY, IND.
FT. WAYNE, IND.
SOUTH BEND, IND.
INDIANAPOLIS, IND.
VINCENNES, IND.

LOUISVILLE, KY.

DETROIT, MICH.
MACKINAW CITY, MICH.
GRAND RAPIDS, MICH.

TODEDO, OHIO
ASHTABULA, OHIO
SANDUSKY, OHIO
CLEVELAND, OHIO
COLUMBUS, OHIO
DAYTON, OHIO
CINCINNATI, OHIO
YOUNGSTOWN, OHIO

ERIE, PENNA.
PITTSBURGH, PENNA.
WILLIAMSPORT, PENNA.

BUFFALO, NEW YORK
ROCHESTER, NEW YORK
NEW YORK, NEW YORK

NEWARK, N.J.

III. A NORTHEAST CORRIDOR AUTHORITY FOR PASSENGER SERVICE

A plan to restructure the region's railroads must take special account of the Northeast Corridor between Boston and Washington. This route has enormous potential not only for freight but also for high speed rail passenger service. It also has a heavy concentration of rail commuter service.

The Pennsylvania plan's objective is an improvement in passenger and freight service along the corridor by achieving:

1. continued sharing of rights-of-way by both freight and passenger traffic;
2. coordination of commuter and intercity passenger service;
3. improvements in the rights-of-way to increase operating speeds and capacity and to enhance safety, and
4. increased public accountability of the companies which operate on the Corridor to insure that public capital investments and operating subsidies are well-spent.

To achieve these objectives a Northeast Corridor Authority (NCA) should be created to upgrade the right-of-way, continue service for local and through freight traffic, and coordinate or maintian commuter and intercity passenger service.

There are several options for the actual operation of the NCA. We think that two deserve special attention. They are:

1. The NCA would control the right-of-way and operate the railroad for both passenger and freight service, maintaining interline connections with other railroads and AMTRAK (Option I).
2. The NCA would acquire the rights and responsibilities of providing all passenger service in the Corridor (Option II).

Both options require establishment of a Northeast Corridor Authority by Congress. Map I (centerfold) delineates the routes which would fall under the aegis of the NCA. They include the main Corridor from Boston to Washington, the Philadelphia-Harrisburg and Harrisburg-Washington links, and routes which provide service to Reading; Allentown; within the Philadelphia and New York metropolitan areas; routes from New Haven to Hartford, Connecticut, and Springfield, Mass., and in the Boston metropolitan area.

The directors of the Authority would represent the states touched by the corridor, the Federal Government and the general public.

Under Option I, the NCA would acquire the rights-of-way delineated on Map I for primary passenger service. The Authority would be responsible for management of the entire corridor and for all phases of operations. It would be directly responsible for providing passenger service. Also, through and local freight routings would be maintained via direct run-through service provided by the Keystone and Great Lakes railroads (formerly Penn Central).

As part of its participation in the Authority, each state could contribute any railroad property it presently owns in the Corridor. (Through a small change in the UMTA Act this property could qualify as the required 20 percent local contribution for capital grant improvements.) Those portions now in private hands would be acquired under the Regional Rail Reorganization Act.

Option II differs from Option I in that the reorganized freight carriers would continue ownership of the rights-of-way in the Northeast Corridor while the Authority would contract for and oversee passenger service only. Freight service would be maintained as is, and would be operated by the freight carriers.

Funds for capital improvements could be made available from the Rail Act or by amending the UMTA Act.

This option has the advantage of avoiding the transactions necessary to accomplish a property separation, but it cannot be expected to function well as long as the nation's most important and promising passenger service continues under a remote, freight-oriented management with no incentive or ability to achieve or excel in passenger service.

(Past experience has demonstrated that the administrative headquarters of a large rail system will rotate management personnel through the passenger department with little regard to skill, experience, or interest, and will assign costs on any basis that maximizes the charges against passenger service. As an actual illustration, present Penn Central practice results in billings of $50,000 per car per year for maintenance of 1963 model Budd electric commuter cars. Identical cars in service in the same area managed by the smaller Reading Company cost only half as much to maintain, and they operate with a much lower failure rate. The only explanation for such a great difference is management.)

If the NCA is to use the contract management approach, it must be understood that the Great Lakes and Keystone executives with authority and responsibility for passenger service must be approved by Corridor rail officials, must have the necessary qualifications for the assignment, and must follow an agreed method of accumulating charges against the Corridor on an equitable, incremental basis.

IV. STRENGTHENING THE ERIE-LACKAWANNA AND THE NEW ENGLAND SYSTEMS

The Erie-Lackawanna, Delaware & Hudson and Boston & Maine can be strenghened through four fundamental changes:

1. Separation of Penn Central into the Keystone and Great Lakes Railroads should provide more interchange traffic with Erie-Lackawanna at Buffalo and the Delaware & Hudson at Wilkes-Barre. (Today Penn Central can and does use slow, costly and circuitous routings to avoid interchanging with these competing carriers.)
2. Extension of the Erie-Lackawanna (and Lehigh and Hudson River) over the Poughkeepsie Bridge to New Haven and Hartford, Connecticut would provide direct competitive service with the Great Lakes Railroad for southern New England. It should return to Erie-Lackawanna some of the traffic it carried when the New Haven railroad was independent.
3. Coordination of Erie-Lackawanna service in the Midwest would cut its operating costs. At several points along this route E-L's track closely parallels that of another carrier. Detailed analyses of traffic flows on the Erie-Lackawanna would doubtless reveal opportunities for cost-cutting via coordination without downgrading local service.
4. Improving the Erie-Lackawanna access to western gateways at Indianapolis and perhaps elsewhere would give it an opportunity for more long haul traffic.

These steps are highly desirable to preserve the competitive service now provided by the Erie-Lackawanna, Delaware & Hudson, and Boston & Maine to New England, northeastern Pennsylvania, New York and New Jersey. Traffic from New England which was shared by these carriers before the Penn Central merger will be in part returned, and present traffic can be routed more directly, resulting in both increased railroad efficiency and better service.

V. THE REORGANIZATION OF THE SMALLER BANKRUPT CARRIERS

The Reading, Central Railroad Company of New Jersey, Lehigh Valley, and Lehigh and Hudson River railroads are vital to the economic interests of the Northeast since they provide the Chessie and Norfolk and Western railroads with rail access to the lucrative Eastern Seaboard markets.

With the creation of the proposed Keystone and Great Lakes railroads, these small carriers will play an important role in the viability of each of the four large, regional carriers.

These smaller railroads must not be cannibalized either through absorption into a monopoly Conrail, or by selling off the main lines (without the branches) to competing carriers. Indeed, such an outright sale to the Chessie or Norfolk & Western is likely to give these two large carriers a competitive advantage over the proposed Penn Central successors.

Two alternatives to these extremes are:

1) The smaller carriers could be included in a single company (Middle Atlantic Railroad Company -- MARC) which would have an affiliation with the Chessie and/or N & W; or
2) The smaller carriers could be reorganized to preserve their historic traffic routings and affiliations with the larger carriers.

Both of these alternatives draw upon the strength and interest of the larger carriers to help assure the long term viability of the region's rail system.

The MARC plan would combine the Reading, CNJ, Lehigh Valley and Lehigh and Hudson River railroads into a single company which could be affiliated with the Chessie and/or N & W, thus assuring the latter continued access to Eastern markets. The supporters of MARC view continued affiliation with the larger carriers as a means of assuring future traffic flows to and from the West and South. Without such interline traffic flows MARC's ability to remain viable is problematical.

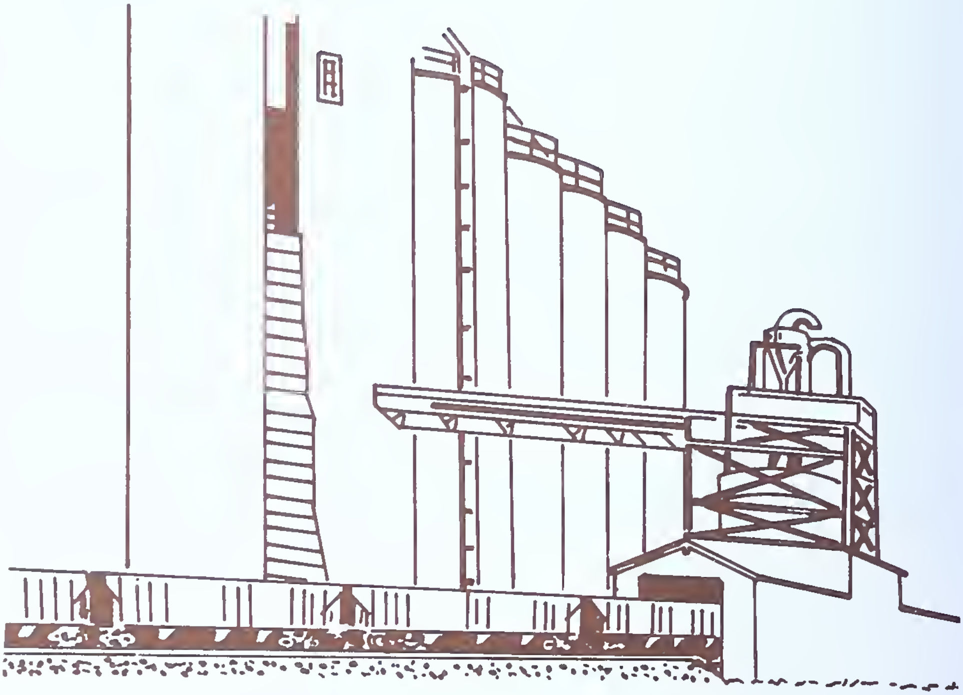
Some observers fear that the merger of the smaller carriers into MARC, coupled with the splitting of Penn Central, would enhance the competitive advantage of the Chessie and N & W and perhaps jeopardize the success of the Keystone and Great Lakes carriers.

The second alternative is based upon more traditional traffic routings and affiliations. There are various combinations that would accomplish the objectives of the second alternative, including:

A. Affiliation of the Reading and CNJ with the Chessie System. The Interstate Commerce Commission required this affiliation as a condition of the **Western Maryland Control** case and both Reading and CNJ have petitions for inclusion pending with the Commission.
B. Affiliation of the Lehigh Valley with Keystone. This would be a return to the historic relationship between the Lehigh Valley and the old Pennsylvania Railroad. Erie-Lackawanna would have an affiliation with the N & W as required by the ICC in 1967 as a condition of the N & W acquisition of the Nickel Plate and Wabash.
C. Changed circumstances since the railroad unifications

of the 1960's may warrant a revision of B above such that the Lehigh Valley would become affiliated with the N & W while the Erie-Lackawanna would be independent. (Strategically, the Erie relates well to the Chessie System and separation of the Penn Central should provide more interchange traffic between the E-L and the Keystone and Great Lakes railroads.)

D. The Lehigh and Hudson River Railroad would continue as a joint facility with access over the Poughkeepsie Bridge.



FACTORS IN THE RESTRUCTURING OF THE BANKRUPT NORTHEASTERN RAILROADS

Congress specified eight broad goals to be achieved in restructuring the bankrupt northeastern railroads. The system is to be financially self-sustaining, adequate to meet the rail transportation needs of the region, provide for passenger service on the northeast corridor and elsewhere, preserve service patterns to fossil fuel reserves, preserve and promote competitive rail and other transportation service, protect the environment from degradation and minimize job losses resulting from loss of rail service.

Admittedly, the goals require some balancing by planners when there are objectives other than those of greatest profitability. Perhaps no issue has prompted more debate than the proper treatment of these goals and the half-hidden questions that they raise: such questions as rehabilitation costs, the importance of competitive rail service, what savings are actually possible through mergers, the importance of rail service for economic development, how to balance passenger and freight service (and costs), how to evaluate the business potential of lines to coal reserves, and what rail's future share of the transportation market will be.

While the USRA Annual Report commented on some of the goals, it made no attempt to relate the strategic options to these half-hidden, but undoubtedly key, questions. On the other hand, staff and consultant reports to the Association are known to contain specifics on these questions. The following discussion draws upon those reports as well as studies under way by the Pennsylvania Office of State Planning and Development and the Pennsylvania Department of Transportation.

REHABILITATION COSTS

The cost of rehabilitation is the single most important factor affecting the effort to create a revitalized rail system. No bankrupt northeastern railroad is without substantial mileage of road where ties, ballast and track need to be replaced. Deferred maintenance on Penn Central alone has resulted in 7,000 miles of track that fail to meet minimum Federal Railroad Administration safety standards. Penn Central also has more than 8,000 miles where bad track conditions require the imposition of speed restrictions. Some main line and yard tracks are restricted to five or ten mile-per-hour speed limits while there are branch lines where service has been suspended because they are unsafe-at-any-speed and the railroad lacks funds to make even minimal repairs. Accidents on Penn Central tracks are at an all time high. In a recent two-week period, there were three major train accidents.

The enormous cost of rehabilitating the bankrupt system seems to be the prime reason for recommending widespread but ill-conceived abandonments and consolidation of routes. The Association's Annual Report is silent on this fact, but the analysis of Conrail viability by Strong, Wishart & Associates, the Association's consultants, concluded that "The need for consolidation savings to aid in financing the rehabilitation of the new system" should be a prime factor in the analysis of alternate industry structures (see *Appraising the Viability of Conrail,* p. A-4).

A parallel study of Penn Central for the U.S. Department of Transportation by a team of six railroad chief engineers said, "It is the very great need for rail that argues loudest for abandonment of every siding, yard track, second main track, and mile of branch line possible." (See *Final Report Roadway Maintenance and Rehabilitation Plan, Penn Central Transportation Company,* Dec. 11, 1974, p.2.)

Even with widespread abandonment, it is doubtful that the required rehabilitation can be accomplished under the aegis of the Regional Rail Reorganization Act. The Chief Engineers' Report concluded that, disregarding inflation, it would take a cash infusion of $2.16 billion to rehabilitate track and structures on a shrunken 12,000 mile Penn Central core system. This estimate is undoubtedly high, but even with substantial downward adjustments it indicates that there simply is not enough money in the Regional Rail Reorganization Act (with total loan authority of $1.5 billion) to rehabilitate track and structures, acquire the property, rehabilitate rolling stock, and make needed capital improvements.

Absent a source of these funds, the USRA seems determined to try to increase the chances of viability by the process of cannibalization, that is by minimizing the amount of track to be included in the Final System Plan. There is no question that there is room for some consolidation. Yet wholesale cannibalizing of the system is hardly the way to create a viable system since the loss of present and potential future traffic and the resulting congestion of main lines are sure to culminate in Phase II of the Penn Central merger disaster.

A far more positive approach to the rehabilitation gap would seem to be reliance on a vehicle such as the United States Rail Trust Fund (RTF) proposed by the Commonwealth of Pennsylvania. Through RTF a 5% surcharge on freight waybills could be used to finance 30 year borrowings of nearly $13 billion. In turn, these borrowings would be granted to all railroads (including the bankrupt carriers) for needed rehabilitation and capital improvements. In addition, a revolving loan fund would provide $1 - 2 billion for rolling stock rehabilitation and purchases. It should be noted that if RTF grants were allotted solely on present share of rail revenue, Penn Central would receive $1.8 billion over six years. This plus loans available under the Rail Act would more than match the Chief Engineers' estimate.

COMPETITIVE SERVICE

The Association's Annual Report indicated that competition would be thoroughly evaluated in the preparation of the Preliminary System Plan. However, the nature of the brief discussion also suggested that the approach would be one which typically characterizes railroad managements rather than users -- that is, analysis of "the cost of competition to the railroads" rather than the improved service or efficiency it generates for shippers. Furthermore, the Annual Report suggested that intermodal competition might be used as a substitute for direct access to more than one rail carrier.

The assumption that transportation competition raises costs is one which is at variance with economic theory and practice. While it is possible that a railroad may spend more money on service in a particular market where it has other rail competition than in one where it has a monopoly, on the whole monopoly pricing tends to be higher and service, inferior in comparison with competitive pricing and service. Thus, at a time when government regulatory bodies are increasingly aware of the higher costs of monopoly, it is odd to find a government planning agency which is considering recommendations to reduce or eliminate rail competition to a large section of America's industrial heartland in contravention of a Congressional mandate to preserve it.

Nor is intermodal competition a substitute for direct access to more than one rail carrier. Large shippers presently have this direct access at their factories and mines, while others have access within a fairly short distance. Some shipments may be moved by truck and container to a nearby railhead, thus giving a shipper access to more than one rail carrier. Or they may be shipped entirely by truck, thus providing truck-rail competition.

However, much of the freight presently dependent on rail -- including coal, ore, lumber, and grain -- is not susceptible to truck-rail movements because of the large added costs involved in rehandling if they are transshipped. Except for short distances, all-truck movements will prove too expensive because of the bulk nature of the freight.

More important, perhaps, much high-value freight which presently moves by truck because of its door-to-door service and on-time reliability will be attracted back to rail only if railroads give improved service.

Re-designing the rail system to minimize direct rail service is foolhardy. It assumes that this huge potential market is lost forever to rail -- an assumption that has little basis in fact.

While no one expects every little shipper to be served by multiple carriers, competitive service should continue to be available in three areas:

1. Major markets should be served by two or more railroads.
2. Shippers should have a choice of routings between major origin-destination points (e.g. Pittsburgh-Chicago, Washington-Newark/New York).
3. Large individual shippers should have direct access to two carriers either at the shipping site or through a local terminal.

Table 3 lists market areas in Pennsylvania which must continue to receive competitive service. All of these are presently served by more than one carrier, as indicated on the table.

MERGER ECONOMIES -- REALITY VS. ILLUSION

Another issue relevant to the restructuring of the northeast carriers is the extent to which merger and consolidation will result in operating economies. The merger of the Pennsylvania and New York Central railroads was prompted by an erroneous vision of large savings in operating costs -- savings which proved to be illusory. Nevertheless, the notion persists in some quarters that a further consolidation of lines will result in the creation of a single profitable carrier from the six bankrupt companies.

The facts are clear: The purported savings from parallel mergers have been grossly overstated. In fact, the National Commission on Productivity pointed out that "The fixed or non-avoidable capital and maintenance costs of the entire physical plant of all the railroads account for only about 8% of total operating expenses." (See *Improving Railroad Productivity*, p. 254). Furthermore, only a small share of maintenance of way and structures outlays (about 5% of total operating outlays) is **not** volume-related. The Commission concluded that "In sum, merger savings have been elusive and offer a tenuous justification for mergers" (Ibid. p. 256).

Data presented in *Pennsylvania's Response to the U.S. DOT Report* support this view. Chart No. I and Table 3 of the Report (pp. 16-17) show that the effect of traffic density on

TABLE 3

MARKET AREAS IN PENNSYLVANIA WHICH MUST CONTINUE TO RECEIVE COMPETITIVE RAIL SERVICE

Market Area	Carrier	1972 Zone Carloading
Philadelphia	Penn Central	759,515
	Baltimore & Ohio (Chessie)	
	Reading	
	*Central of N. J.	
Allentown/ Bethlehem	Reading	187,021
	*Erie-Lackawanna	
	Lehigh Valley	
	*Central of N. J.	
	*Penn Central	
Scranton	Erie-Lackawanna	27,218
	Delaware & Hudson	
Wilkes-Barre	Delaware & Hudson	33,141
	Penn Central	
	Lehigh Valley	
	*Erie-Lackawanna	
Reading	Penn Central	56,172
	Reading	
Lancaster	Penn Central	42,795
	Reading	
Harrisburg	Reading	123,494
	Penn Central	
	*Western Maryland (Chessie)	
York	Penn Central	129,127
	Western Maryland (Chessie)	
	Reading	
Williamsport	Penn Central	39,812
	Reading	
	**Erie-Lackawanna	
	*Lehigh Valley	
Johnstown	Penn Central	291.973
	Baltimore & Ohio (Chessie)	
	Western Maryland (Chessie)	
Pittsburgh	Penn Central	988.804
	Baltimore & Ohio (Chessie)	
	Norfolk & Western	
	Bessemer & Lake Erie	

TABLE 3 (Cont'd.)

MARKET AREAS IN PENNSYLVANIA WHICH MUST CONTINUE TO RECEIVE COMPETITIVE RAIL SERVICE

Market Area	Carrier	1972 Zone Carloading
New Castle	Erie-Lackawanna Penn Central Baltimore & Ohio (Chessie) Bessemer & Lake Erie	361,646
Erie	Penn Central Norfolk & Western *Erie-Lackawanna Bessemer & Lake Erie	39,933
Lehighton	*Erie-Lackawanna Lehigh Valley	34,210
State College	*Penn Central *Erie-Lackawanna *Baltimore & Ohio (Chessie)	179,436
Uniontown	Baltimore & Ohio (Chessie) **Western Maryland (Chessie) Penn Central *Pittsburgh & Lake Erie *Norfolk & Western	62,756
Chambersburg	Penn Central Western Maryland (Chessie) *Reading *Baltimore & Ohio (Chessie)	32,224
Pottsville	Reading Penn Central *Lehigh Valley *Erie-Lackawanna	130,481
	TOTAL	**3,519,758**

* The DOT Report identified these markets as zones. In certain cases a railroad does not serve the city for which the zone is named, but it does serve other parts of the market area.

** Trackage rights.

maintenance of way costs is significant only for lines of less than six million gross tons per route mile. In the range of six to 24 million gross ton miles, the cost is almost steady at one mill per gross ton mile. In other words, maintenance of way costs are virtually the same for 10 million gross tons per mile on each of two tracks, and 20 million gross tons per mile on a single track.

The one type of merger which seems on its surface to offer some hope for savings is that which links two or more carriers end-to-end, since the delays and inefficiencies associated with interchange operations can be reduced. This proved true in the first of the "modern" mergers, that of the N & W and Virginian railroads. But even here the relationship between merger and saving may be illusory since many of the same economies can be achieved through changed operating patterns such as the use of coordinated schedules and run-through service.

The saving of some operating costs insofar as they result from merger must be offset against the added costs of a larger railroad operation. **These stem from the fact that rail carriers, unlike manufacturing companies, are not susceptible to decentralized operations.** Thus, increasing the size of an operation beyond a certain point merely makes management more cumbersome. In addition, concentration of traffic may result in delays (and additional costs) because of accidents, congestion and confusion, natural disasters, and routine maintenance of way.

In summary, further merger of the bankrupt carriers seems likely only to compound rail transportation problems in the region.

CONRAIL'S IMPACTS ON ECONOMIC DEVELOPMENT

One aspect of the restructuring which is critical for hundreds of local communities across the region is the effect railroad reorganization will have upon the location of economic activities. A healthy rail system is an asset to a community attempting to hold existing industry, or attract new firms. Conversely, the poor service offered by the present bankrupt carriers tends to put communities along these lines at a disadvantage in competing for new industries and new jobs.

Actually, the relationship between rail restructuring and economic development is far more complex than this, and involves not only the location of track, but the marketing approach of the railroad management. The USRA Annual Report is virtually silent on this issue, but consultant and staff studies indicate that marketing changes are under consideration which could have a major impact on communities and their economies. These fall into two broad areas:

1. **Industrial Relocation Strategies.** One of the most drastic marketing strategies, as far as localities are concerned, is suggested by the discussion of industrial relocation by an Association consultant. Two statements in the Strong, Wishart Report summarize this discussion:

   a) "How can Conrail as an instrument of public policy influence the relocation of industry over the long-term into production and distribution centers which are more efficient for the economy, for industry, and for Conrail?"
   b) "Industrial relocation is an alternative to rail service continuation subsidies." (Strong, Wishart & Associates, *Appraising the Viability of Conrail,* pp. A 12-14.)

The consultant suggests that Conrail should adopt policies which will encourage firms to locate along main lines and in large markets away from smaller communities where they may now be. The consultant does not suggest what will happen to the lives of the people in these smaller communities or the cost to the nation to maintain a level of sustenance for them. In addition, encouraging industrial relocation away from light density lines would minimize the requirement that Conrail operate these lines under subsidy arrangements. In practice, such a strategy might operate by providing poor service to customers in outlying areas, discouraging business to or from light density lines, offering more attractive tariffs to customers locating near market centers, and providing poor service to subsidized light-density lines and short lines to hamper their operations.

2. **Pricing to Maximize Overhead and Profit.** A second strategy which would have similarly drastic effects on many communities is a pricing policy which maximizes revenue contributions to overhead and profit. This too is suggested by the Strong, Wishart Report (p. E 3-4). In practice such a strategy would result in monopolistic pricing in areas where shipments cannot be moved by another mode or another rail carrier. It would also forego the possibility of attracting more business via competitive pricing in areas where trucks are available as alternatives to rail. Since it is unlikely that the very large shippers would stand for such a strategy, it is likely that smaller shippers who now use rail because their goods are not susceptible to alternate movements would bear the brunt of the cost increases.

   Such a policy might also mean attempting to concentrate business on routes where fixed costs are a large share of total expenses in the hope of raising tariffs to compensate fully these fixed costs.

Either of these approaches to service would seem to be at odds with the goals in Section 206 (a) of the Act (cited above) which includes the preservation of existing patterns of service, the promotion of competition, and the minimization of employment losses and social costs in communities presently served by the carriers. A marketing strategy built around them would result in loss of thousands of jobs in hundreds of communities across the region.

RAIL PASSENGER SERVICE

The impact of rail restructuring on passenger service is of major concern to states and local communities, since many of them are presently heavily involved in both commuter and intercity passenger operations. This is particularly important in an energy-starved economy. While Conrail will be primarily a freight operation, it may operate passenger service as a contractor for AMTRAK or other public groups (just as Penn Central now does). Both facilities and operations planning will have a major influence on passenger service. Among the key areas of concern are the following:

1. **Fragmentation of financial commitment to passenger service.** Local and regional transportation authorities with state and federal aid have devised a variety of solutions to provide necessary commuter transportation service. AMTRAK has arranged contracts with private railroads to provide intercity service also, but unfortunately passenger service is still relegated to second-class status by freight-dominated railroads.

   Indeed, passenger service is being forced by these railroads to pay a king's ransom for roadbed improvements because it is argued that the deteriorating tracks are already adequate for freight service. Any grants of public money for track improvement should be conditioned on a fair apportionment of overhead and operating costs between passenger and freight use.

2. **Joint operation and scheduling of freight-passenger routes.** Freight and passenger traffic often can use the same routes (this is particularly true on commuter lines where passenger service typically operates only 16 or 18 hours a day). Without coordinated scheduling and traffic control, the efficiency of both operations will suffer. With coordination and joint use, the costs of providing both services can be lower.

3. **Implementing the 1971 U.S. DOT Recommendations for Northeast Corridor Transportation.** Restructuring should be undertaken in such a fashion that the result is

> consistent with these recommendations. The results of restructuring should be conducive to an expansion and improvement in passenger service in the corridor in the next several years. In large measure these recommendations have not been fully implemented because of the bankruptcy of Penn Central and other uncertainties about the structure and operations of the region's railroads.

Information available to date on the USRA's plans for restructuring the rail system does not bode well for the future of passenger service. None of the strategic options presented in the Annual Report will solve the structural and operational problems to the full benefit of passenger movement. Some, like the neutral terminal company concept, would produce greater fragmentation of ownership, while others, like Conrail I, would have such large freight operations that they would tend to be unresponsive to passenger needs.

The necessity of reorganizing the region's bankrupt railroads presents a good opportunity for creating the framework of improved passenger service. Indeed, this is one of the purposes of the RRR Act and high priority must be given to achieving this end.

PRESERVATION OF BRANCH LINES IN COAL FIELDS

Branch lines into bituminous and anthracite fields require special attention because the Rail Reorganization Act calls for preservation where possible of existing railroad trackage in areas in which fossil fuel natural resources are located. However, even in coal fields, USRA searches for miles of track to abandon.

Coal lines are different from industrial lines because they either carry a substantial traffic volume or none. Consequently, many of them can be out of service for years at practically no expense to the owning railroad. Penn Central, for example, has retained many such lines in western Pennsylvania pending the day when a coal mining company begins operations. To overcome the deferred maintenance on such lines Penn Central has obtained rehabilitation funds from the mining company which are then paid off on the basis of tonnage shipped.

If there is a problem about retention of coal branch lines, it arises over the decision of which ones to retain. Which ones have the best prospects of renewed mining activity? Since that question requires both detailed research and highly speculative guessing, we approached it differently.

Would it make business sense to retain all coal lines?

We found that retention of all lines holds negligible risk, even under the pessimistic "business as usual" scenario of Project Independence. Elimination of any significant number of coal branches carries the possibility of putting Conrail or its components at a competitive disadvantage vis-a-vis other railroads and other coal carriers, including potential slurry pipelines. Conversely, we found that given the expanding coal market assumed in the Project Independence "accelerated development" scenario, abandoning half of Pennsylvania's 808 miles of coal branch lines would only increase profits on all of these branches 4 percent. Even that 4 percent increase would require perfect foresight and no cutback in coal production. Also it would presuppose 100% accuracy in predicting which lines would be used, and no diversion of traffic to other means of transportation as a result of any abandonments.*

Actually, abandonment will lead to at least some loss of traffic by the railroads, and no one knows which lines will prove most useful and profitable. Thus, the calculations show that from a business standpoint alone, retention of branch lines serving coal fields should be a major planning policy of USRA.

RAILROADS' FUTURE SHARE OF FREIGHT TRAFFIC

In *Pennsylvania's Response to the DOT Report* it was urged that federal planners not assume that railroads would be unable to recapture some of the business they have lost over past years. To a limited extent USRA did heed this request in a consulting contract with Temple, Barker & Sloane (TBS) when it requested an evaluation of traffic prospects.

The TBS findings showed that under the most optimistic conditions a 35 to 42 percent increase in tonnnage was theoretically possible, but a realistic assessment would be less than half that amount. Unfortunately, the consultants were not asked to pursue the matter through to its logical end. They were not asked to convert this additional traffic from tonnage to revenues, despite the fact that profits are determined by dollars, not by weight carried.

If the revenue analysis had been made, the next logical step would be to determine what kinds of operating practices and additional services would be necessary to capture various commodities in the theoretical forecast, how much the changes in practice would cost and, most important, what the impact on the overall balance sheet of the railroad would be.

Without such additional analysis the TBS estimate of additional future traffic is hollow and leads to the conclusion that USRA accepts the view that railroads cannot increase their share of overall freight traffic, a view that at least deserves to be tested before it is accepted. It is Pennsylvania's view that there is much room for improved management and business practices on the bankrupt railroads and that these improvements will attract additional profitable traffic. In addition, the energy crisis requires it.

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*An analysis of the strategy of retaining coal branch lines is available from the Pennsylvania Office of State Planning and Development, Harrisburg, Pa., 17120.

USRA'S APPROACH TO RAILROAD RESTRUCTURING

Implementation of the provisions of the Regional Rail Reorganization Act of 1973 will result in major structural changes in railroad service in the Northeast quadrant of the nation. While the Act did not specify the changes to be made, it did create the United States Railway Association to prepare the plan for those changes.

The changes will have lasting impacts on regional transportation and on both the regional and national economy. Yet there has been relatively little public attention paid to this issue, since, unlike proposals for massive abandonments, the effects of structural and operating changes are less easily discernible to rail users.

The USRA Annual Report skimmed over the issue with a brief presentation of five "strategic options" or alternate industry structures. The brief discussion in the Report has generated little comment from shippers and others who are vitally concerned with rail reorganization. In the long run, however, the issues encompassed by rail industry restructuring will have an effect equal to or greater than the effect of potential abandonments.

In contrast to the brief presentation in the Annual Report, the Association has devoted substantial money and time to the "industry structure" problem.

How many railroads will there be? How will they be operated? How will profitable railroads be affected? Which railroads will own what track and service which markets? How much will the plan cost the public?

Millions of dollars and thousands of hours of staff time have been devoted to these issues. However, most of the consultant studies, staff evaluations and position papers prepared for the Association's board of directors have not been made available to the public. Hence, while these issues have been debated within the Association and among railroad managements, government planners and other cognoscenti, the rail-using public has been left in the dark.

The material in the following sections draws upon the Annual Report, available consultant studies, and oral presentations by the USRA staff at meetings with the State Technical teams. (This analysis could be improved if we had direct access to USRA data. If our request for this data is granted, then a more detailed analysis will be presented.)

DOWNGRADING OF MAIN LINES

Numerous mainlines are being studied by the Association staff for downgrading or complete abandonment. Trains using them now would be diverted over other routes in an effort to achieve economy and efficiency.

Exactly which lines are being subjected to this analysis has not been disclosed by the USRA. Even so, it can be assumed that, at a minimum, any present main line which appears on the USRA list of "potentially excess" branches will be subject to possible downgrading. Map II shows all mainlines in the region which fall into this category. If this assumption is correct, it means that the Association is considering rerouting through traffic which now moves over 26 vital interstate links. See Table 4.

TABLE 4

MAIN LINES* UNDER STUDY AS POTENTIALLY EXCESS

Carrier	Location
PC	Providence, R.I. - Groton, Ct.
PC	Mt. Kisco, N.Y. - Putnam Jct., N.Y.
PC	Little Ferry, N.Y. - Kingston, N.Y.
LHRR	Poughkeepsie, N.Y. - Phillipsburg, N.J.
PC	Phillipsburg, N.J. - Morrisville, N.J.
PC	Parkesburg, Pa. - Lancaster, Pa. - Royalton, Pa.
PC	Lancaster, Pa. - Columbia, Pa.
RDG	West Milton, Pa. - Rupert, Pa.
LV	Mehoopany, Pa. - Buffalo, N.Y.
PC	New Kingston, Pa. - Hagerstown, Md.
PC	Cresson, Pa. - Nanty Glo, Pa.
PC	Connellsville, Pa. - Uniontown, Pa.
PC	Kiski Jct., Pa. - Red Bank, Pa.
PC	Jamestown, Pa. - Sharon, Pa.
PC	Ashtabula, O. - Warren, O.
PC	Detroit, Mich.- Warren, Mich.
PC	Bay City, Mich. - Saginaw, Mich. - Oakley, Mich.
PC	Lansing, Mich. - Jackson, Mich. - Three Rivers, Mich.
PC	Three Rivers, Mich. - Grand Rapids, Mich.
PC	Toledo, O. - Berwick, O. - Kenton, O.
PC	Delaware, O. - Edison, O.
PC	Truro, O. - Charleston, W. Va.
PC	Columbus, O. - Xenia, O.
PC	Xenia, O. - Dayton, O.
PC	Dayton, O. - Richmond, Ind.
PC	Meekers, O. - Carlisle Jct., O.
PC	New Paris, O. - Greenville, O.
PC	Amity, Ind. - Louisville, Ky.
PC	Martinsville, Ind. - Vincennes, Ind.
PC	Rincon, Ind. - Evansville, Ind.
PC	Ben Davis, Ind. - Terre Haute, Ind.
PC	Cleremont, Ind. - Lebanon, Ind. - Lafayette, Ind.
PC	Logansport, Ind. - LaCrosse, Ind. - Griffith, Ind.
PC	Washington Heights, Ill. - Shell, Ind.
PC	Danville, Ill. - Mackinaw, Ill.
PC	Paris, Ill. - East St. Louis, Ill.

* Main lines defined as those with a minimum of five million gross tons per mile.

Some of these lines presently have very heavy traffic densities, led by the Royalton-Lancaster-Parkesburg route which carries more than 30 million gross tons per mile per year.

All traffic shifts would not result in economies or more efficient delivery of goods. Some shifts would seriously disrupt existing shipping patterns. Others would add circuity to the route and therefore increase railroad costs. Still others might eliminate special clearance routes required for high, wide or heavy loads. The impact of these proposed downgradings on shippers is not known simply because the list of "candidate" lines has not been made available for shipper comments.

USRA STRATEGIC OPTIONS

The Annual Report listed five options under study by the Association. The names it gave them are:

- Conrail I
- Conrail and Neutral Terminal Companies
- Conrail East -- Penn Central West
- Unmerging Penn Central
- Separate Fixed Plant Entity

Several other options are known to have received serious consideration by the USRA Board or planning staff. These were not made public in the Annual Report and presumably the Preliminary System Plan of the Association will select one of the five in the list above.

A. Conrail I

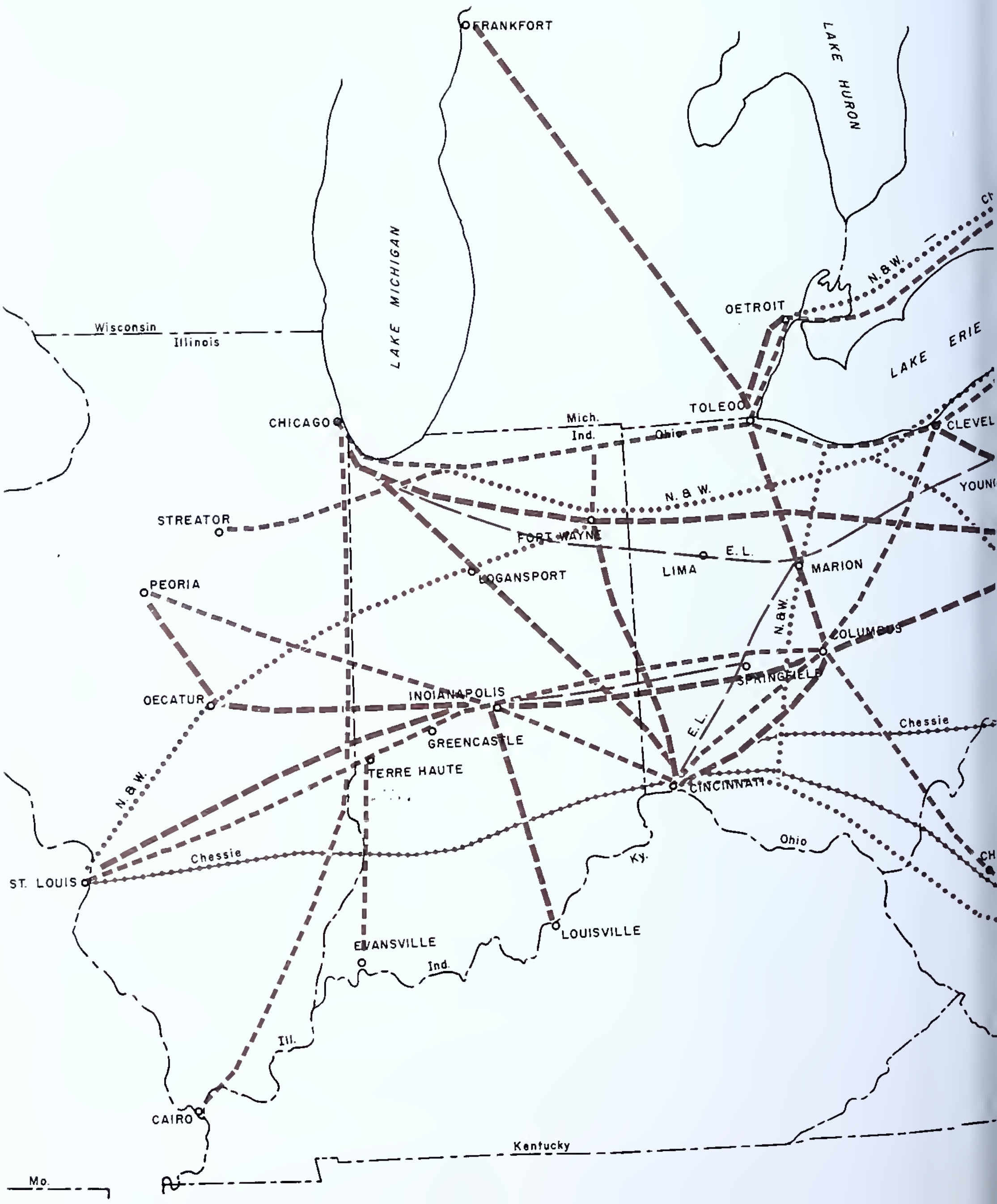
Conrail I contemplates merging all of the bankrupt carriers (Penn Central, Reading, Lehigh Valley, Central of New Jersey, Lehigh and Hudson River and Ann Arbor) into a single railroad stretching from Boston to Washington, St. Louis and Chicago. The Association's arguments in favor of this option are that it would provide Conrail with long hauls, the most access to markets, and the most opportunity to eliminate "duplicative" routes. This option leaves unresolved a number of serious questions. Among them are:

1. Conrail I allows a massive consolidation and abandonment of light-density lines. One version proposes the elimination of 8,400 miles (38% of the total), and an end to direct rail connections to hundreds of communities and thousands of shippers throughout the region (see Strong, Wishart & Associates, *Appraising the Viability of Conrail,* p. I-4).

2. Even without consolidation and abandonments, however, Conrail I will mean a wholesale reduction or

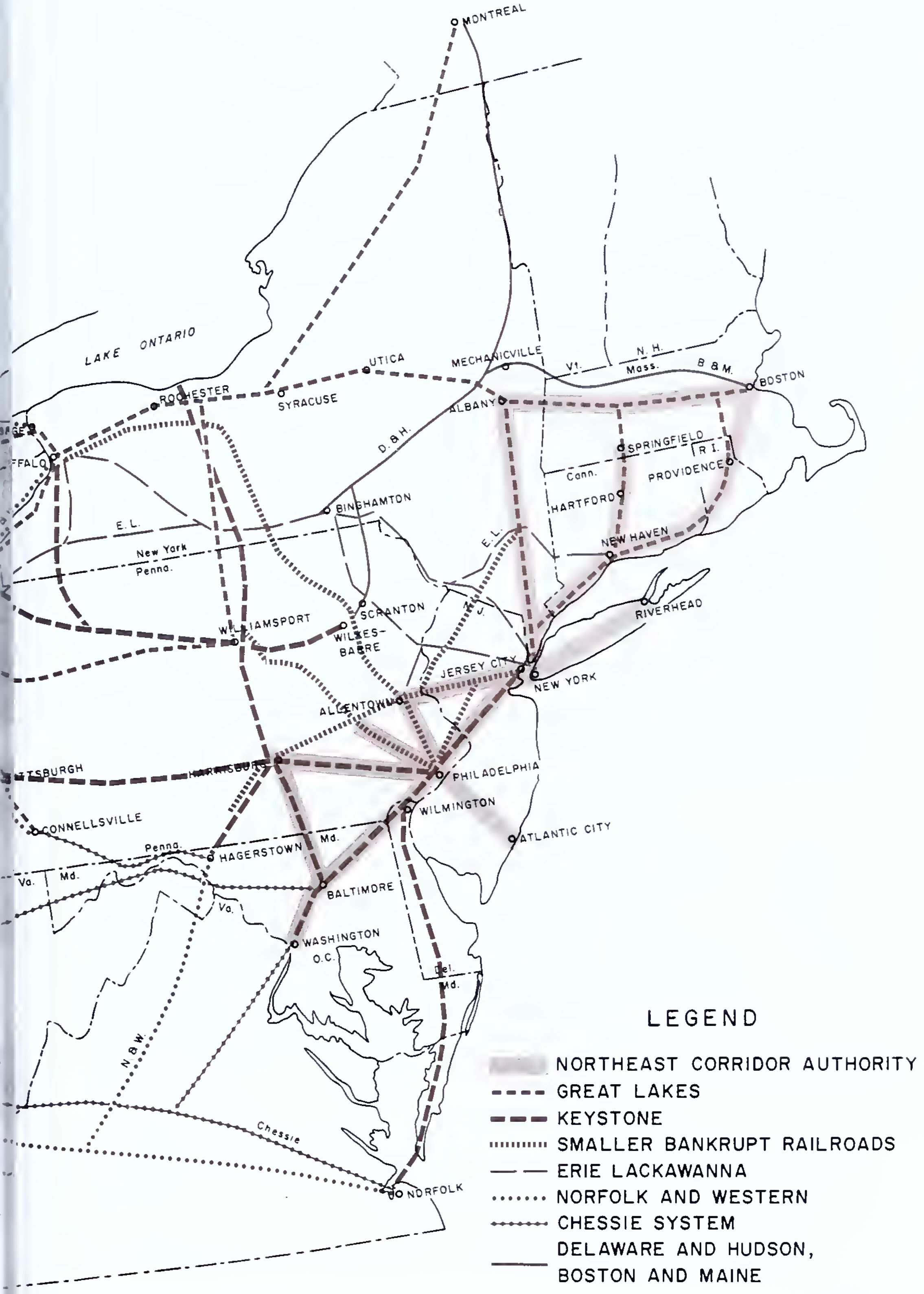
SCHEMATIC DIAGRAM O

PENNSYLVANIA'S PLAN FOR A



PETING RAIL SYSTEMS

EASTERN RAILROAD SYSTEM



MAP I

PREPARED BY: OFFICE OF STATE PLANNING AND DEVELOPMENT, FEB., 1975 elimination of competition to major markets, particularly in Eastern Pennsylvania and Northern New Jersey. Absorption of the Reading, Lehigh Valley and CNJ will severely restrict or eliminate competition in the following major Pennsylvania markets: Philadelphia, Lancaster, Reading, Harrisburg, Allentown-Bethlehem, Wilkes-Barre, and Williamsport. According to the *U.S.DOT Report,* these markets originated or terminated 1,241,950 carloads in 1972, 36% of all traffic in Pennsylvania. If the Erie-Lackawanna also joins Conrail, (as seems possible as indicated by passage of S. 281 by the U.S. Senate in late January 1975), the Scranton, Pennsylvania area could also lose meaningful competitive service, thus depriving another 29,000 carloads of direct competitive choice.

3. Even with the most drastic cutbacks, Conrail I would still consist of some 14,000 route miles and 60,000 employes, and thus would be larger than the 25,000 employes or so which is considered optimum from a management perspective. Less drastic consolidation of service would increase the diseconomies inherent in a large single carrier.

Most important, the inclusion of Reading and Lehigh Valley in Conrail I will largely isolate the Chessie and Norfolk & Western from many eastern markets now reached via these smaller bankrupt carriers. The resulting decline in traffic might weaken the economic position of these major carriers and ultimately force them into bankruptcy. The loss of the Reading-Lehigh Valley could cause severe harm to the solvent Delaware & Hudson (and the struggling Boston & Maine and Erie-Lackawanna which depend heavily on the D & H) by eliminating its vital north to south through traffic.

B. Conrail And Neutral Terminal Companies

This option envisions a single Conrail with neutral terminal companies created to handle operations in the New York/Newark and Philadelphia areas. (Some USRA staff analyses contemplate extending the terminal concept to Baltimore and Allentown-Bethlehem.) The terminal companies are conceived as a way of assuring access by the solvent carriers to the major eastern markets, while preserving long hauls, opportunities for consolidation, and monopoly for Conrail.

Among the problems with this option are the following:

1. The predominant form of the structure would still be monopoly and, except for Philadelphia and Allentown-Bethlehem, Pennsylvania markets which would be deprived of competitive service with Conrail I would also lose such service under this option.

2. Neutral terminal companies historically have poor records of efficiency. They have little incentive to economize and most are run as cost-plus operations.

3. One way or another these high cost operations will have to be financed by the shippers (or worse, by the general public in the form of a government subsidy or higher prices or both). Shippers' payments will, of course, put the shippers at a competitive disadvantage vis-a-vis others in the same line of business who are not located in the selected terminal areas.

4. Not only are neutral terminal operations less accountable for service than a single line haul carrier, they also may serve to frustrate a line haul carrier's attempts to provide good service by delaying pick-up and delivery of cars or by diverting empty cars from one shipper to another.

5. Continued poor service in the congested terminal areas is likely to lead to further diversion of traffic from rail to trucks and more relocation of industry to rail lines outside of these established areas with negative impacts on local economies and the quality of life in these communities.

C. Conrail East-Penn Central West

Conrail East-Penn Central West extends the neutral terminal concept to the entire area east of Harrisburg and Albany. It is based on three assumptions: (a) this is a high cost area which weakens the viability of all railroads operating in it, and thus all carriers will benefit by isolating the area and its associated costs; (b) the neutral terminal company will provide access by all solvent carriers in the region to the major East Coast markets and terminals; (c) this arrangement will benefit Northeast Corridor passenger operations.

Many of the arguments against the smaller neutral terminal concept also apply to this option. These include the tendency of neutral terminal operations to be inefficient, to operate on a cost-plus basis, and to interfere with line haul carriers' attempts to supply and deliver cars.

In addition, some of the drawbacks of the smaller terminal concept would be accentuated by a single terminal operation of this size. Among these are the following:

1. The entire Eastern half of the region would be at the mercy of a single rail carrier. Direct access by competitive rail carriers would be abolished for all major Eastern markets by the establishment of a single regional carrier on the East Coast. This would create an intolerable situation with all shippers absolutely dependent upon this one railroad, shades of Vanderbilt, Astor and Rockefeller. Let not these days return.

2. It is likely that over half of all traffic in the Eastern District would be handled through the terminal area at some time, and thus an inefficient operation would degrade the entire region's rail service.

3. The extension of the operation as far west as Harrisburg would slice 100 miles or more from the line haul portions of the movements of both the present Penn Central and the Chessie System. The consequent loss of revenues could have a serious negative impact on the viability of all of these carriers.

4. The size of the neutral terminal operation would mean that the terminal could be avoided completely by using trucks to reach the line haul carriers at the edge of the terminal. Moreover, once freight is on a truck, shippers would probably be inclined to leave it on the truck for the duration of an overnight truck haul -- i.e. for 300-400 miles, thus cutting into rail traffic drastically, and increasing the nation's oil problems.

D. Unmerging Penn Central

On its surface this option seems to avoid many of the pitfalls of the previous three since it avoids excessive size, monopoly, and a neutral terminal operation. However, the Association's intention to merge the smaller bankrupt carriers into one of the unmerged systems and to reassign routes in the Midwest would create regional monopolies and a net decrease in rail competition.

This is not apparent from the brief description of this option appearing in the Annual Report. However, the Association's staff provided a more detailed description of this option at a States Technical Team meeting on November 7, 1974. As described at that meeting and in subsequent discussions with the Association's staff, restructuring would be as follows:

a. Penn Central would be split into a north and south operation roughly along the lines of the pre-merged lines. Both carriers would have continued access to Newark/New York, Chicago and St. Louis.

b. The Reading Railroad would be incorporated into the south network, while Lehigh Valley, Central of New Jersey, Lehigh and Hudson River and New Haven lines would be assigned to the north.

c. In general, competition between the north and south segments would be avoided by giving each a regional monopoly (although competition between the segments and the other solvent carriers would remain). This would be accomplished by assigning lines on the basis of present traffic flows and eliminating "duplicative" routes, especially in the Midwest.

The merger of the smaller railroads into unmerged Pennsylvania and New York Central systems would have a particularly deleterious effect on the transportation network in the eastern Pennsylvania and northern New Jersey-New York markets because access to these markets for the Chessie and Norfolk & Western systems provided by these smaller railroads would be lost.

If these smaller carriers lose their present affiliations with the Chessie and N & W via incorporation into segments of the unmerged Penn Central, the major markets east of Harrisburg will suffer a decline in access to competitive rail service.

Similarly, the elimination of the so-called "duplicative" routes in the Midwest would prevent a return to the pre-merger competitive marketing and service of the old Pennsylvania and New York railroads.

Before the merger, the two carriers offered direct service to 28 major markets enumerated in Table 2. With the exception of Chicago and St. Louis most of these would be assigned to one or the other railroad.

Because of the virtual discontinuance of car float operations across the Hudson River, New York City itself would be served only by the North carrier (the tubes under the Hudson River cannot handle freight traffic).

The Hudson River crossing situation must be addressed immediately. Economic and national defense considerations require full restoration of the Poughkeepsie Bridge and development of another crossing to give rail carriers direct access to New York City.

E. Separate Fixed Plant Entity (SFPE)

This is not so much an operating option as a means of separating ownership of facilities from operation of rail service. The USRA Annual Report described the SFPE as follows: "Under this plan, the fixed plant is separated from the operating entity in both ownership and financing. Government funds are utilized for acquisition and rehabilitation of a fixed plant, while private funds finance rolling stock and any operating deficits."

In a word, this is half-nationalization, with the government purchasing track, yards, rights-of-way and related appurtenances at a cost of billions of dollars. Private companies would operate over this fixed plant with their own rolling stock, and presumably they would pay a rental or user charge to the government (or government corporation) which owned and maintained the physical facilities.

Such an arrangement would principally benefit the holders of mortgages on the property of the bankrupt railroads. It might also be of benefit to some shippers along these lines (because of improved service), and to the stockholders of the private companies operating on the facilities -- although experience with other government companies such as the U.S. Postal Service suggests that these benefits would be tenuous at best.

On the other hand, there would be definite disadvantages to SFPC for the general public, for the economy, and for solvent railroads. These include the following:

1. The cost of acquiring the physical plants is estimated to be at least $2 - 3 billion. For this sum, the public would acquire a property so run-down that it is nearly worthless for transportation purposes without a further investment of an additional $2 - 3 billion for rehabilitation.
2. Acquisition of the fixed plant could mean saddling the railroads (or the public) with expensive debt in place of the present cheap debt. Much of this property is presently mortgaged at interest rates of 3-4 percent. Acquisition would replace these cheap mortgages with 7-8 percent government bonds. The operating railroads (and/or the public through subsidy) would then be confronted with higher fixed charges then if they continued present leased line payments.
3. There is serious doubt that public management of the fixed plant would be responsive to the needs of the operating companies. Since transportation and maintenance of way responsibilities would be segregated into different managements, there would be room for inefficiencies which might further degrade rail service.
4. If the SFPE is successful,it will have adverse impacts on the ability of the solvent carriers to compete in the region. Either this would lead to a withdrawal of public support for the fixed plant entity or force the acquisition of all rights-of-way across the nation at an immense cost to the public.

Two further facts argue against a Separate Fixed Plant Entity. First, with the exception of some mortgage holders, ownership of property is not considered to be a fundamental issue in the reorganization of northeastern railroads. Second, most physical facilities are now owned by separate non-operating companies (the so-called secondary debtors) which have been found reorganizable on a conventional basis by the Federal courts -- without resort to transfer of property.

Finally, the Separate Fixed Plant Entity violates a basic tenet of the Rail Act which calls for careful planning to make the most efficient use of scarce financial resources. The same $2 - 3 billion required to purchase the rights-of-way could be invested in rehabilitation, thus increasing the value of the assets to the creditors and improving their usefulness for rail transportation purposes.

For additional criticisms of these five options made by the Conference of 17 States involved in the Regional Rail Reorganization Act, see Appendix A.

NATIONALIZATION

Outright nationalization is not a solution to the problems of railroads since those problems would simply be transferred from private owners to public owners at a huge cost to the public. It makes no sense to commit scarce public funds to acquisition when lack of investment is the problem.

Pennsylvania has consistently opposed nationalization because it will eliminate competitive rail service. The Commonwealth's position is that such competition is the only guarantee that genuine service can be obtained. The experience of rail users is replete with the benefits of competition, and the case for benefits to be derived from government monopoly is far from made.

It may be noteworthy that the Association itself did not even consider nationalization as a legitimate option when it prepared its Annual Report. It should not be taken seriously at this time because there are other types of governmental action that can produce significant improvement without enormous disruption.

OTHER OPTIONS CONSIDERED BY THE USRA

While the Association listed only these five options in its Annual Report, two other options deserve attention since they either have received serious study by the Association or play some part in its present analyses. These are the Mid-Atlantic Railroad Company (or MARC) plan, and proposals for the sale of major portions of the present Penn Central to solvent carriers.

A. Conrail Plus MARC

Strong, Wishart & Associates, consultants to the Association examined this proposal as an alternative to Conrail I. MARC envisions merging the smaller bankrupt railroads (Reading, Central of New Jersey, Lehigh Valley and Lehigh & Hudson River) into a single carrier which would then serve both Conrail and the solvent carriers. While the MARC option did not appear in the Annual Report, apparently it did play a serious role in the Association's deliberations on restructuring. In this regard the following factors are significant:

1. MARC, as conceived by the consultant, would involve less abandonment than would Conrail I. The Strong, Wishart report assumed the Conrail plus MARC system would retain 16,700 route miles vs. 14,000 for Conrail I.
2. On the other hand, Strong, Wishart estimated that Conrail plus MARC would have a net capital deficit of more than $600 million by 1980 and thus would not be viable. According to the consultant, this deficit would be due primarily to the added costs of rehabilitating the larger system which would result from the creation of MARC. (Financing the rehabilitation through off-balance sheet methods -- for instance through Rail Trust Fund grants -- would obviate this objection.
3. Others have noted that MARC would be essentially a terminal operation without any significant long haul traffic. They have argued that MARC would thus have revenue problems and would be unable to remain viable over the long term, regardless of rehabilitation costs. Pennsylvania's suggestion for MARC would be to build a strong affiliation (through joint traffic efforts or operating responsibility) between MARC on the one hand and the Chessie and N & W on the other. Furthermore, it should be noted that the four railroads that would comprise MARC recently updated their financial analysis and showed that during the first nine months of 1974 MARC would have been a profitable operation.

B. Sale of Major Routes to Solvent Carriers

The Annual Report indicated that the "controlled liquidation" option was "deferred due to the current lack of interest by the solvent carriers." However, recent statements by executives of solvent carriers indicate that liquidation may indeed be under serious consideration. The Association's staff, in a January 9, 1975 meeting with representatives of the states, declared that solvent carriers had been asked to express interest in some 300 "consolidation" projects, many of which include sale of routes to a solvent carrier.

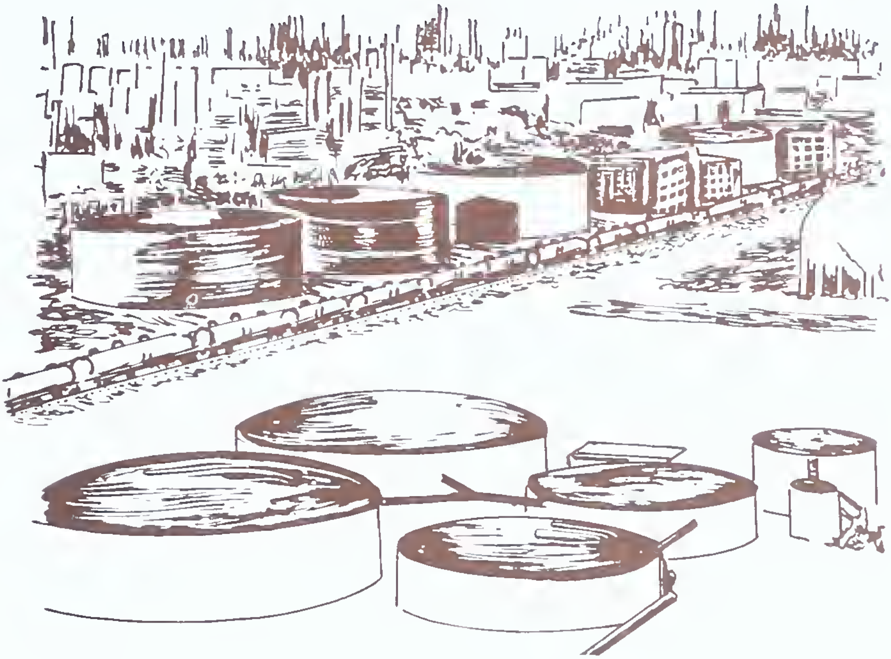
Officers of the Southern, Santa Fe and Norfolk and Western have indicated that they are seriously studying the possibility of acquiring major Penn Central routes while a Penn Central executive has indicated that his company has approached the Chessie, Burlington Northern, Illinois Central and others about the possibility of the sale of major Penn Central assets (see Washington *Star*, December 25,1974). Subsequently, the USRA released a list of more than 150 projects in which other railroads had expressed some interest.

This list included major pieces of the present Penn Central including the main lines from Pittsburgh to Chicago and from Buffalo to Indianapolis and St. Louis, from Cairo to Chicago, from Cleveland to Toledo and Detroit, Hagerstown to Wilkes-Barre and Norfolk to Wilmington to name only some of the more prominent.

Some shippers may favor the sale of individual lines since Penn Central, with its generally poor service, would be replaced, and service would probably improve. But thousands of rail users on less desirable main lines and branches scattered throughout the region could be left in a never-never land of reliance on a shrunken Conrail, or deprived of service via abandonment.

In addition, the present traffic flows and patterns of competition would undoubtedly undergo radical transformation under this option. In the absence of a detailed plan of liquidation, the effects of these changes are impossible to ascertain. Thus, any step in this direction which was not preceded by exhaustive study and public scrutiny could be disasterous.

Finally, Section 206 (d) (3) of the Regional Rail Reorganization Act stipulates that any such transfers must be approved by the Interstate Commerce Commission and this undoubtedly will add complications to the already complex planning process.



BRANCH LINE ANALYSIS

The USRA Annual Report indicated that 10,000 miles of railroad in the 17-state Northeast-Midwest region were under study as "potentially excess" to the Final System Plan. This 10,000 miles represents 45 percent of the route mileage of the Penn Central and five* other bankrupts under the Regional Rail Reorganization Act -- in other words, almost one out of every two route miles of the 22,000 mile system will be subject to possible abandonment. Of the 10,000 miles under study, some 2,350 miles of road are in Pennsylvania. This is almost a quarter of the 17-state total identified by the Association for study. It is also 28 percent of all railroad mileage in the Commonwealth and 40 percent of that operated by carriers reorganizing under the Regional Rail Reorganization Act. These lines are shown on Map III.

These "potentially excess" lines are undergoing line viability analysis by USRA. Unfortunately, the actual methods used in this analysis were not described in the Association's Annual Report, and thus will not be subjected to public comment until the publication of the Preliminary System Plan on February 26, 1975. However, the Association has discussed the elements of the analysis at a series of meetings with technical representatives of the states, and has made available both a proposed analysis procedure developed by a consultant, CONSAD Research Corporation, and results of a test of the procedure on 17 branch lines, including the Bedford-Brookes Mills and Oil City-Tidioute lines in Pennsylvania. The following discussion is based upon this material.

SELECTING THE "POTENTIALLY EXCESS" LINES

According to the Association, the potentially excess lines were selected from three sources:

1. The *U.S. DOT Report* of February 2, 1974 on Rail Service in the Northeast-Midwest Region;
2. Additional lines recommended for abandonment by the managements of Penn Central and the other bankrupt carriers; and
3. Lines recommended for abandonment or future study by Strong, Wishart & Associates, a USRA consultant, or by the Association's operations planning group.

*Erie-Lackawanna was excluded when the Association's Annual Report was issued in November, 1974.

TABLE 5

ORANGE LINES THAT EXCEED DOT UPPER CRITERIA WHICH ARE CURRENTLY BEING EVALUATED BY U.S.R.A.

OSPD Number	Railroad	Miles	Number of Shippers	Annual Carloads Per Mile
14	P.C.	5	11	3,862.0
12	Reading	2.4	13	1,060.8
77	Reading	14	9	355.7
17	Reading	11	8	330.6
84	P.C.	10.4	15	278.1
24	Reading	4.6	6	238.7
21	Reading	8.4	19	211.2
74	Reading	23.2	10	205.3
23	P.C.	10	14	191.0
83*	P.C.	18.6	14	176.3
71	P.C.	9	11	172.7
60	P.C.	4	1	162
19	Reading	4	4	154.8
48	P.C.	21	10	153.4
86	Stewartstown	6.4	21	124.8
82	Reading	8	11	114.6
61	P.C.	10	10	113.0
1	P.C.	24.0	13	108.8
11	Reading	5.2	11	108.1
73	Reading	12	3	102.5
67	Reading	6	8	97.5
58	P.C.	7	6	92.0
78	Reading	6.8	5	91.8
65	Everett	5	11	91.2
68	P.C.	30	14	80.6
52	P.C.	10	4	78.0
40	P.C.	25	5	76
47	P.C.	21	7	68.5
10	Reading	30.5	11	57.6
4	L.V.	16.0	10	56.9
72	P.C.	13.8	11	52.3
56	P.C.	58	17	51.4

*Western Maryland portion of line is no longer being evaluated.

These recommendations were accepted without qualification or any screening standard. Consequently, each of these sources is open to serious question. For example, the *U.S. DOT Report's* light density line analysis was thoroughly discredited by numerous government and shipper witnesses during hearings held last spring by the Interstate Commerce Commission and the Commonwealth. Both the formula -- which averaged out to a 75 car per mile per year rule -- and its application were faulted. The single most important flaw was that the formula relied upon traffic data supplied by the railroads. These data proved to be notoriously inaccurate as witness after witness at the hearings testified. The most serious error was undercounting of cars on branch lines. As a result of the hearings and a shipper survey conducted by state and regional planning agencies, the Commonwealth found that many of the 87 lines listed as potentially excess in the *DOT Report* exceeded the DOT upper criteria for profitability. These were reported in detail in *Pennsylvania's Response to the U.S. DOT Report* which was submitted to both the ICC and the USRA. Actual carloads were as high as 3,862 a mile. Other states have reported similar findings. (See Appendix B.)

Sixty-seven of these Pennsylvania lines belong to railroads* still reorganizing under the Act. Of these, 32 have carloads which exceed the DOT criteria for profitability. Table 5 lists these lines with the present and potential traffic. Others are presently out of service but have potential traffic which would exceed the criteria.

Why are these lines still under analysis? Apparently the reason is Catch-22. Although they never should have been listed in the *DOT Report*, once they were listed they automatically qualify for USRA analysis for exclusion from the Final System Plan.

The second source for lines under analysis is the various abandonment plans put forth by Penn Central management. This list **in toto** is remarkably like that put forward by Penn Central in their February, 1973 proposal to reduce their rail system to 11,000 route miles. This proposed reduction was so drastic that it was rejected out of hand by virtually all shippers and government officials. Penn Central never explained the criteria for selecting these lines for abandonment and many observers have concluded that the major purpose of the 11,000-mile system proposal was to dramatize Penn Central's plight rather than to eliminate unneeded rail service. Yet, these proposed abandonments are being taken seriously by USRA.

The third source, lines recommended for study or abandonment by a USRA consultant (and the Association's operations planning group), is, in theory, the most defensible since it represents an assessment by an independent source. But this analysis also is seriously flawed. The consultant never made explicit the criteria used in recommending lines either for abandonment or for further study. Furthermore, the overall approach of the consultant strongly implies that the prime criterion was the effect abandonment would have on overall system rehabilitation cost rather than on rail service **per se.**

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*Erie-Lackawanna lines are excluded from these comments.

(See *"Appraising the Viability of Conrail"* by Strong, Wishart & Associates, Inc., p. A-4.)

USRA BRANCH LINE PROFITABILITY ANALYSIS

Controversy over retention or abandonment of branch lines began when the February 2, 1974 *DOT Report* was issued. If anything, the heat of controversy has intensified because even more miles of branch lines are currently being studied by USRA as potentially excess while the basis of the analysis has become more complex and obscure.

In the *DOT Report* a rule-of-thumb was used which required an average of 75 carloads per mile of track annually to establish profitability. (This was in contrast to an Interstate Commerce Commission standard of 34 carloads per mile annually). Public objection to this rule-of-thumb was intense and prompted the USRA to seek another means of determining the economics of branch lines. Its new formula is based on the work of CONSAD Research, a consulting firm, and is quite detailed.

The Association's proposed line viability analysis explicitly treats only local carrier economic viability. It does this by calculating the revenue attributable to the reorganizing railroads (Conrail) from all cars originating and/or terminating on a particular branch line, deducting branch line operating and maintenance costs, off-branch costs, return on scrap value, taxes, and rehabilitation costs, and crediting overhead (bridge) traffic revenue. Both the overall approach to branch line viability and the individual steps involved raise serious questions about goals and technique. These are dealt with in the following sections.

Among the general issues that are raised by the Association's analytical method are the meaning of viability, whether viability is a line-by-line issue or a system-wide question, how to treat scrap value, the effects of abandonment on connecting railroads, what actually is an avoidable cost if service is discontinued, whether potential traffic and revenue growth shall be calculated, and why the standards for calculating subsidies are so much lower than the Association's formula.

DEFINING VIABILITY

The first issue in the branch line viability analysis is whether light density lines will be considered for inclusion in the Final System Plan solely on the basis of their economic viability or profitability.

The Regional Rail Reorganization Act of 1973 is silent on the idea of branch line viability, although several of the goals enumerated in Section 206 (a) have important implications for the concept. Among the key goals are the following:

> " (1) The creation, through a process of reorganization, of a financially self-sustaining rail system in the region;
>
> " (2) The establishment and maintenance of a rail service system adequate to meet the rail transportation needs and service requirements of the region;
>
> * * *
>
> " (4) The preservation, to the extent consistent with other goals, of existing patterns of service by railroads (including short line and terminal railroads), and of existing railroad trackage in areas in which fossil fuel natural resources are located, and the utilization of those modes of transportation in the region which require the smallest amount of scarce energy resources and which can most efficiently transport energy resources;
>
> * * *
>
> " (8) The minimization of job losses and associated increases in unemployment and community benefit costs in areas in the region presently served by rail service."

The USRA Annual Report (pp.55-56) implies that lines meeting the tests of long run viability, short run viability or imminent increase in traffic will be included in the Final System Plan. Apparently, all other lines will be excluded, although attempts may be made on some of them to arrange service by an alternate carrier (either a solvent railroad or short line).

The Association's analytical approach ignores the remaining goals or leaves their achievement to the states through the workings of the subsidy program (which is discussed below). The proposed economic viability analysis excludes other goals of the Rail Act -- such as a system to meet rail transportation needs and service requirements, one that preserves existing patterns of service and trackage in areas containing fossil fuel reserves, or that minimizes job losses and other economic community impacts.

In fact, both the Annual Report and the proposed viability analysis indicate that employment, environmental and social costs will be assessed **after** the decision is made to exclude a line from the Final System Plan, although the clear intent of the Act was to achieve a balance among these goals in the Final Plan. This too is a catch-22 procedure.

SYSTEM VS. LINE PROFITABILITY

A second issue raised by the Association's proposed approach is whether economic viability or profitability should be measured on a line-by-line basis at all. The Act says nothing about the viability of individual lines, and in fact its only reference to the viability goal is in Section 206 (a) (1). According to the Act the goal is "a financially self-sustaining **rail system**" rather than self-sustaining rail lines or segments.

Does it make a difference whether profitability is measured at the branch or system level? The answer, of course, is yes.

One reason why it makes a difference is that in order to measure viability of branches one must derive complicated methods of allocating costs and revenues to the branch. Since railroads don't keep branch line accounts, this inevitably involves more or less arbitrary apportionment of costs, and in the end the apportionment rules, rather than the traffic on the line, tend to be the factors which determine profitability.

Second, many of the light density lines belonging to Penn Central and other bankrupt carriers are severely deteriorated after years of neglected maintenance. In some cases the railroads have actually taken up track because it was desperately needed elsewhere in the system. Until these lines are rehabilitated and high quality rail service is restored, real demand for rail service will be greatly understated.

Third, one must remember the role of branch lines -- they are not independent lines of business, but rather are integral to the very operation of the entire system since they pick up and deliver traffic, and also serve the sites of future industrial development.

IS RETURN ON SCRAP VALUE A VALID CRITERION?

The line-by-line viability analysis raises a third issue which is whether individual lines should be subjected to the return-on-value test. In effect, the proposed analysis singles out some 10,000 miles of track on approximately 750 lines and tests them to determine whether the revenues contributed to them cover costs plus a 10 percent return on their value. Lines other

TABLE 6

TOTAL REVENUE AND CONRAIL REVENUE ON 17 BRANCH LINES SUBJECT TO USRA EVALUATION

USRA Number	Number of Miles	Number of Carloads	Carloads Mile	Total Revenue		Revenue Per Car	
				Conrail	All Railroads	Conrail	All Railroads
21	24.3	1,508	62.06	$ 697,690	$1,310,431	$462.66	$ 868.93
59	23.2	1,813	78.15	617,383	1,068,851	347.53	589.54
60	35.1	56	1.60	25,271	60,148	451.27	1,074.07
28	9.3	166	17.8	54,577	122,031	323.77	735.12
90	6.0	350	58.3	133,394	209,101	381.12	597.43
233	17.0	808	47.5	381,978	683,132	472.74	845.46
125	5.0	900	130.0	409,298	848,319	454.72	942.56
148	25.9	91	3.5	34,718	61,359	381.52	674.27
167	29.0	2,186	75.3	1,017,656	1,485,972	465.53	679.77
205	41.9	7,822	186.7	2,816,477	4,627,944	360.07	591.66
216	32.3	1,167	36.1	469,571	993,024	402.37	850.92
254	33.7	131	3.9	43,171	111,396	329.55	850.15
398	6.3	187	29.7	56,638	210,575	302.87	1,126.07
465	8.1	152	18.7	56,480	130,720	371.58	860.00
399	16.7	453	27.1	108,656	557,557	239.86	1,230.31
480	40.5	2,954	72.9	821,131	2,043,153	277.97	691.66
496	31.2	6,793	217.72	1,081,172	3,082,988	265.15	453.84

than this group of 750 are not subjected to this return on value test. Nor is the entire system -- for good reason. Such a test would suggest scrapping many of the so-called profitable lines and probably the entire system as well. Such a conclusion, of course, would not be in the public interest, nor would it be consistent with the findings or purposes of the Regional Rail Reorganization Act.

The effect of subjecting only the "potentially excess" lines to this test is to rig the analysis against selected light density lines. Naturally, there is no reason to expect that either individual lines or an entire system which cannot yield a reasonable return on scrap value will continue to operate indefinitely in the private sector, but there is justification for including these pieces in the Final System Plan, at least in the short run, since in their deteriorated state there probably is no way of accurately measuring their ability to pay costs.

CONRAIL REVENUES -- A BEGGAR THY NEIGHBOR APPROACH?

Yet another issue is raised in the proposed viability procedure by limiting analysis only to costs and revenues for Conrail rather than costs and revenues related to all railroads involved in a particular move. For instance, a particular branch line might have generated traffic with total revenues of $1,200 per carload in 1973. Because the traffic moves only a short distance over the Conrail system, Conrail may be credited with only $200 of this revenue. This $200 is then offset against Conrail's costs, and if they total more than $200 the line is judged not economically viable. Yet, the average revenue per carload for all railroads in the nation was about $500 in 1973, and in the Eastern District it was $494. In this context the $1,200 carload should be highly valuable to railroads in general, if not to Conrail.

Table 6 indicates that this is not an academic discussion. Of the 17 lines subjected to the proposed viability analysis by the USRA, three had total revenues in 1973 greater than $1,000 per carload and 16 had revenues greater than the $494 per carload which was the average for the Eastern District.

But assuming that this traffic is unprofitable for Conrail does not mean it is unprofitable for a connecting carrier. Indeed, it might be highly profitable for both Conrail and the connecting carrier with a change in divisions. Abandonment of such lines will have an adverse impact on the profits earned by the connecting carriers -- and ultimately on the viability of the nation's rail system.

Lines with high revenue traffic should be prime candidates for inclusion in any restructured system since they have potential for contributing large amounts of revenue to Conrail (through a re-negotiation of the revenue division). Unfortunately, the Association's branch line viability approach seems to ignore this possibility -- and may even be biased against this high revenue traffic.

THE AVOIDABLE COSTS ISSUE

Another issue central to the viability analysis is whether to use variable (avoidable) costs or operating costs. The problems of choice are compounded by the absence of any clear, generally-accepted definitions of the two costs **vis-a-vis** railroad operating accounts. The proposed viability analysis attempts to finesse this issue by assuming that in the long run all costs are variable and therefore the distinction need not be retained. In theory this is partly true, and the assumption greatly simplifies the viability analysis. Unfortunately, in the short run -- Conrail's first years of operation -- it undoubtedly overstates the cost savings and thereby biases the analysis against the "potentially excess" branch lines.

For example, the track supervisor at Altoona spends one or two days a month on the Bedford branch. If the branch is abandoned, in the long run the supervisor might be assigned additional track, or -- if enough branches are abandoned throughout the system -- supervisors might all be reassigned and there might be some reduction in their number. Such savings are possible in theory, although as stated earlier, in practice they are often unrealized if not intentionally exaggerated. More to the point, savings on these accounts are only possible in the long run (i.e. a matter of years). Since Conrail's immediate viability problem is generally acknowledged to be cash flow, it is entirely possible for the system to fail in spite of long-run cost savings.

In the above example, the cost of a track supervisor cannot be saved over the first year or two after abandonment. Hence, it is not a cost which should be assigned to the branch line during this period, because the cost continues whether or not the line is there.

The USRA's long-run cost approach would be more nearly valid, of course, if it also used long-run revenues -- that is, the long-run costs (assuming a rehabilitated system) compared with the long-run revenues (including increased traffic via better service). Since the proposed viability analysis is concerned only with present revenues, it seems designed merely to quantify the cash flow (and opportunity costs of capital) aspects of branch line operation. Therefore, the inclusion of long-run variable costs (such as the track supervisor's time) is not warranted.

Lest this argument seem trivial, it should be noted that there are indeed large differences between costs which are truly avoidable in the short run (e.g. engine fuel) and those which are not (e.g. track supervisors, train masters, yard and shop facilities, advertising and marketing staffs, division superintendents and system executives to cite a range of items), and charging the latter costs against a branch merely biases the analysis against those potentially excess lines.

TRAFFIC POTENTIAL AND REVENUE GROWTH

The Association's Annual Report indicates that the light density line analysis will take into account "definite and immediate growth in traffic revenues," in determining whether a line should be recommended for inclusion in the Final System Plan (see pp. 55-56). The report makes clear that this definition is restricted to instances where "actual or imminent construction" can be identified. In so limiting the analysis, the Association ignores a second -- and potentially more important -- source of revenue: shifts from truck to rail transport which could result from improvements in rail service.

Hearings on the *U.S. DOT Report* conducted by both the Commonwealth and the ICC resulted in a great deal of testimony by shippers to the effect that they would increase their use of rail if the service improved. Adequate car supply, reliable pick-up and delivery, improved claims settlement, and, perhaps most important, a renewed concern for shippers and their needs undoubtedly would cause present shippers to use more rail.

There are indications that traffic and revenue growth resulting from service improvements could far exceed that which can be generated by economic growth, and yet the Association seems to ignore this completely. A study of the tendency to ship by rail now underway by the Office of State Planning and Development seeks to demonstrate this potential. Its results should be incorporated into analyses of both light density line and system viability.

SUBSIDIES

A final issue central to branch line viability is the role of rail-continuation subsidies.

The Act authorizes $90 million annually toward a two-year program to subsidize rail service along branch lines excluded from the Final System Plan. The Association's Annual Report suggested that states and local governments must be prepared to subsidize unprofitable rail lines. If this is taken with the very narrowly-defined concept of viability which is emerging from the Association's work, it seems to indicate that the burden of counteracting economic and social costs of prospective abandonments will fall on the shoulders of state and local government through the subsidy.

There are, however, a number of difficulties with the subsidy program, and unless these are resolved they will severely limit its usefulness for this purpose. First is the fact that there is neither a mechanism nor an incentive for rehabilitation **and** subsidizing a line under the Act. While loans can be made for acquisition and rehabilitation of lines left out of the Final System Plan, **these lines cannot then be subsidized.**

Why is this important? Assume for now that a branch line is operating at a loss. While its timetable speed is 30 miles-an-hour, poor track conditions have reduced speeds to one-third of this or less. It may well be that track rehabilitation to return the line to its authorized speed, coupled with more efficient operations on the rest of the system, would reduce the costs of operating on the line, stimulate additional traffic and thus eliminate any operating loss. A one-time investment in track work plus operating subsidies to carry the line for the first few years might bring it into the black. But under the Act, this scenario is all but excluded. Aid is available either to purchase and rehabilitate the line or to subsidize it in its present condition. Neither alternative alone would represent a long-term solution to the many lines which could be profitable and most certainly are vital to the economy of an entire area.

There are other problems with the subsidy provisions. Although the Federal legislation authorizes appropriations for only two years, various Federal officials believe that, once established, it will be a continuing program. To a businessman, however, an industrial location on a subsidized line excluded from the Final System Plan is bound to be less attractive than a site on one included in the plan. Subsidized lines will have a harder time attracting new industry, and in the long run will probably lose the rail-dependent industry they presently have. For certain, no new industrial parks will develop along a line threatened with abandonment. Clearly, then, no matter what the intent of the Congress or the Association, the subsidy provision as now constituted may be little more than a **de facto** phase-out of rail service.

Third, work to date on developing a formula for calculating avoidable costs and revenue attributable to a branch line has been complicated by the fact that railroads must provide the necessary documentation. This makes it impossible to calculate the amount of subsidy that might be required. Even so, officials at the ICC's Rail Services Planning Office (RSPO) believe that required subsidies will be much less than the deficit computed on USRA's line analysis.

Fourth, a subsidy by its very nature offers no incentive for

TABLE 7

IMPACT OF CORRECTIONS TO USRA'S VIABILITY CALCULATIONS

SAMPLE TEST: Bedford to Brookes Mills

USRA Test Procedure	USRA Estimates (Costs/ Revenues)	OSPD Corrected Estimates (Costs/ Revenues)
BEGIN WITH:		
CARRIER BRANCH REVENUE	$469,571	$469,571
TEST 1 - Deduct:		
On-Branch Operating Costs	-134,116	-134,116
RESULT:		
Net Revenue After Deducting Operating Costs	**335,455**	**335,455**
TEST 2 - Deduct:		
Normalized Branch Maintenance Costs	-149,523	-144,061 [1]
RESULT:		
Net Revenue After Deducting Normalized Branch Maintenance Costs	**185,932**	**191,394**
TEST 3 - Deduct:		
Return on Branch Salvage Value	-91,725	-40,482 [2]
RESULT:		
Net Revenue After Deducting Return on Branch Salvage Value	**94,207**	**150,912**
TEST 4 - Deduct:		
Branch Overhead Costs	-11,513	-824 [3]
RESULT:		
Net Revenue After Deducting Branch Overhead Costs	82,694	**150,088**
TEST 5 - Deduct:		
Property Taxes on Branch	0	0
RESULT:		
Net Revenue After Deducting Property Taxes	82,694	**150,088**
TEST 6 - Deduct:		
Off-Branch Operating Costs	-187,681	-187,681
RESULT:		
Net Revenue After Deducting Off-Branch Operating Costs	**-104,987**	**-37,593**

TABLE 7 (Cont'd.)

IMPACT OF CORRECTIONS TO USRA'S VIABILITY CALCULATIONS

SAMPLE TEST: Bedford to Brookes Mills

USRA Test Procedure	**USRA Estimates (Costs/ Revenues)**	**OSPD Corrected Estimates (Costs/ Revenues)**
TEST 7 - Add:		
Overhead (Bridge) Traffic Revenue	0	34,865[4]
RESULT:		
Net Revenue After Adding Bridge Traffic Revenue	**-104,987**	**-2,728**
TEST 8 - Deduct:		
Rehabilitation Cost to FRA Track Class I	-13,770	0[5]
RESULT FOR CLASS I TRACK:		
Net Revenue After Improvement to Track Class I	**-118,757**	**-2,728**
ALTERNATIVE TEST 8 - Deduct:		
Rehabilitation Cost to FRA Track Class II From Test 7 Result	-62,655	-33,574[6]
RESULT FOR CLASS II TRACK:		
Net Revenue After Improvement to Track Class II	**-167,642**	**-36,302**
TEST 9 - Add:		
Savings from Upgrading to Class II	0	12,360[6]
RESULT:		
Net Revenue from Upgrading to Class II	**-167,642**	**-23,942**

Notes:
1. USRA estimate less $5,462 for ineligibles. See appendix.
2. Recalculated using current unit costs. See appendix.
3. Excludes unavoidable supervisory costs. See appendix.
4. OSPD estimate of net revenue from overhead traffic. See appendix.
5. No charge since track already classified as Class I. See appendix.
6. Re-calculation of rehabilitation costs and credit for reduced operating costs at Class II. See appendix.

cost control. Rather, it will lead to a cost-plus operation of branch lines. (The RSPO formula does provide for a negotiation between railroads and shippers initially so that questions such as minimum traffic guarantees or changes in service which might lower or eliminate the need for subsidy altogether can be discussed.)

Finally, the subsidy formula is bound to yield different results than the USRA viability formula, and this can lead to the following absurdity: a line analyzed by the USRA will prove non-viable and thus will be excluded from the Final System Plan; however, subsidy calculations will indicate no deficit of avoidable costs over revenues, making the subsidy payment the minimum -- $1.00. In other words, the Association will find the line not profitable and exclude it from the plan, but Conrail will be forced to operate it anyway without subsidy because the subsidy formula shows it has no deficit. While both the Association and the Rail Services Planning Office recognize -- and expect -- this eventuality, USRA has shown no willingness to work out a single formula and thereby resolve this issue. For USRA to exclude from the Final System Plan branches that do not require a subsidy is preposterous.

THE BEDFORD LINE: A RE-CALCULATION OF THE USRA LINE VIABILITY FORMULA

These issues have a dollars and cents application as the re-calculation of the USRA viability test on the Bedford-Brookes Mills branch line shows. Table 7 summarizes the results of the re-analysis by the Pennsylvania Office of State Planning and Development; the basis for each calculation is described briefly in Appendix C.*

Column I of Table 7 summarizes the USRA viability formula results. The Association found a net annual deficit of $116,757 if the line were operated at a Class I (10 m.p.h.) standard, and a deficit of $167,642 if the line were improved to operate at a Class II (25 m.p.h.) standard.

The OSPD re-calculations made major adjustments for salvage value and rehabilitation costs (both of which were overstated by the USRA) and revenue from overhead traffic (which was excluded from the USRA analysis).

The result of this re-calculation is a conclusion that the Bedford line can operate on a Class I standard virtually at the break-even point, with an annual loss of $2,728 or less than $3 per carload. (See Test 8 results on Table 7.) Upgrading the track to Class II increases the deficit to $23,942 or about $21 per carload.

* A further explanation is contained in a technical memorandum available from the Office of State Planning and Development, Harrisburg, Pa. 17120.

Appendix A

CONFERENCE OF STATES ON REGIONAL RAIL REORGANIZATION POSITIONS ON STRATEGIC OPTIONS

December 4, 1974

Introduction

The Conference of States has considered the strategic options for rail industry structure at its meeting of November 19 and 20, 1974, in Newport and at a special meeting December 3, 1974, in Philadelphia. The following states were represented in Philadelphia: Pennsylvania, New York, Ohio, Maryland, New Jersey, New Hampshire, Rhode Island, Massachusetts, Illinois and Wisconsin. The Appalachian and New England regional commissions and the Delmarva Advisory Council also attended.

Based on the data and evaluations available to date the positions below were unanimously reached. Individual states will present more detailed positions to USRA as appropriate.

The Conference feels that it must have the opportunity to refine its position after reviewing updated and more reliable information. We urge that the USRA continue to release both further information and related analyses as soon as they become available.

Position #1 Maintain Competition

Competition is essential to a healthy and full service railroad industry. While it is difficult to define precisely where competition is efficient the Conference believes that more major cities in the region should receive direct competitive mainline service than were called for in the U.S. DOT February, 1974, report. The Conference is working to draw up a list of added cities; as illustrations this list will include Rochester, Syracuse, Harrisburg, Allentown/Bethlehem, New Haven (via Maybrook) and Providence. The competing systems (as distinguished from corporations) formed to meet this objective must be balanced in terms of relative market share, capitalization, and earning power in order to achieve efficient operation.

Position #2 Financial Viability of Non Conrail Carriers

The Conference is concerned that USRA is not giving adequate attention to securing the financial viability of the non-Conrail railroads (especially the bankrupts reorganized outside the Act and the marginally solvent carriers as well as the strong solvents). We believe the USRA must examine and provide for the traffic and capital needs of these carriers and for the enhancement of competitive routings where these are presently based on weak linkages. Some examples of solvent carrier operations which need strenghening or protection are: (1) the B & M, D & H, EL & LV interconnections; (2) TP & W; (3) DT & I access to Cincinnati; (4) the Illinois Terminal Co. interchange with the Peoria & Eastern; (5) C & O/B & O and N & W access to Philadelphia via the Reading Railroad.

Additionally, USRA should not ignore the possibility that small solvents in the region may be interested in acquiring limited parts of the bankrupt properties.

Position #3 Unmerging Penn Central

The Conference of States believes the stragetic option of unmerging the Penn Central to be potentially the most desirable for the region. This option appears to be able to best meet the objectives of the reorganization process. The viability of the two railroads so formed must be demonstrated. Simple unmerger with absorption of the smaller bankrupts by the new railroads is not sufficient; proper disposition of the Lehigh Valley, Reading, CNJ, AA, and the L & HR amongst the solvents and the new railroads is required to provide adequate competitive service to the major markets and to protect the viability of the other railroads in the region.

The Conference calls for thorough analysis of this concept in the several forms it can take and the presentation of this analysis for public review.

Position #4 Neutral Terminals

The Conference finds the concept of neutral terminal companies in the major metropolitan areas unacceptable. Where that concept offers the possibility of giving non-Conrail railroads competitive access to these areas, we believe this can be done equally well or better by assigning some properties of the bankrupts to solvents or carriers reorganized outside the Act.

Generally, the Conference favors reallocation of rail properties in major cities to enable reciprocal switching by two or more equally capable competing line haul carriers.

Potential problems with neutral terminal companies include:

1. Lack of motivation of terminal company to provide rapid service.
2. The terminal company may be unable to obtain adequate empty cars.
3. A series of terminal companies along the east coast would be detrimental to north-south traffic originating or terminating in these terminals because such traffic would effectively be short-hauled over a series of connecting railroads.
4. A single major terminal company along the east coast might also be detrimental to north-south traffic because the primary function of the terminal company would not be north-south line hauls.
5. The question of rate divisions is not solved. The result could be either:
    a. Divisions favoring the terminals, thus making the viability of the line haul railroads questionable or,
    b. divisions favoring the line hauls thus making the terminals of questionable viability which, in turn, can become serious local financial burdens or,
    c. a "cost plus" operation where there are no incentives for financial efficiency.
6. Delays at the interface between the terminal and the line haul railroad may reduce the ability for intermodal competition.

Position #5 Big Conrail

The Conference finds unacceptable the concept of formation of Big Conrail from the properties of the bankrupts under 3R Act. Within this concept, as presently constituted, the various states recognize a number of problems, not all of which are agreed to by all states.*

Those problems on which the states are unanimous are the following:

1. The weakening of existing solvent and reorganizing railroads through denial of direct access to major markets;
2. the perpetuation of operating diseconomies, possibly compounded due to lack of competition;
3. the risk of future collapse affecting large geographic and economically significant areas of the nation;
4. the lack of responsiveness potentially inherent in such a monolithic structure; and
5. the least flexibility for future evolutionary changes in the national rail system.

*New York feels that there are ways in which Big Conrail can be made acceptable.

Position #6 Separate Fixed Plant Entity

The Conference* calls for thorough analysis of the Separate Fixed Plant Entity (SFPE) concept. This analysis should consider this concept as either a private or a quasi-public corporation. Additionally, it should consider use of SFPE on portions of the properties of the bankrupt (and perhaps solvent) carriers as well as on all the system.

*New York dissents from the view and feels that SFPE should be considered only if no other viable restructuring can be made.

Position #7

Regardless of the option selected, no viable reorganization is feasible without efficient fiancial support. We urge a realistic assessment (by USRA) of financial needs, limitations or funding provided by the Act, and alternative funding options.

Some such alternative funding options are the Rail Trust Plan proposed by the Governor of Pennsylvania, additional federal grants and federal loan authority.

Final Remarks

To conclude, our review shows that the strategic options are not mutually exclusive. We urge preparation of a Preliminary System Plan Report by USRA that provides a full discussion of all options studied together with an expression of preference for one option supported by the full range of details called for in the final system plan. We believe that anything less will result in a preliminary plan lacking sufficient detail to allow specific and adequate public commentary. It is recognized that recommendations in the Preliminary Plan will be subject to change as the Final Plan is formulated based on more complete data, further analyses and public response to the Preliminary Plan.

Adopted at Philadelphia, Pennsylvania Meeting December 4, 1974.

CONFERENCE OF STATES POSITION ON BRANCH LINE ANALYSES

The Conference of States on Regional Rail Reorganization has discussed the CONSAD viability methodology that has been proposed by USRA and is now under study leading to its possible adoption and implementation. We are pleased at the overall concept of the sequential testing process which builds the maximum flexibility for public decision-making at the Board level. We are impressed by the technical accomplishment implicit in the production of a working methodology of this scope and sophistication.

We feel, however, that there are a few aspects of the methodology that require further discussion and clarification. These are at three (3) levels: (a) some underlying premises which need amplification and corroboration; (b) some technical inputs and variables which can be made more line-specific; (c) some additional calculations in the sequential viability tests which will provide greater flexibility for the Borad's decision-making.

A. Premises

1. The USRA perspective that the only lines that will be recommended for service without subsidy must be shown to be financially viable causes extreme concern. The Act prescribes only that the **system as a whole** must be profitable, not each individual segment. Unprofitable branch lines whose retention would meet the other goals of the Act should be included in the plan as long as the system as a whole has the profits to support them. Similarly, short unprofitable segments of branch lines should be included in the plan as long as the branch line as a whole is profitable. We do not feel that it was the legislative intent that the subsidy mechanism is the exclusive means of satisfying the non-viability goals. Moreover, in considering the inclusion or exclusion of branch lines, the Board should simultaneously consider the economic and social impact on the communities affected on a line specific basis.

2. (a) The use of total nationwide revenue, rather than system revenue, in a branch line viability calculation, is a valid public policy alternative. The CONSAD methodology should provide a comparison of both approaches so that the Board can make the tradeoff between potential losses to the nationwide rail system and losses to CONRAIL.

2. (b) The transfer of a branch line from one carrier to another carrier with a longer average haul will generally produce greater branch revenues. The viability methodology should provide for testing the assignment of a branch to the system that produces the greatest possible revenue.

3. The use of Rail From A should be avoided. Costs constructed in accord with Rail Form A procedures provide inaccurate and misleading managerial guidance. Instead, line-specific forecasts of avoidable costs in the short run and incremental costs in the long run should be utilized. Joint or common costs should be allocated in accord with demand considerations.

4. The CONSAD methodology allocates a very substantial amount of overhead (system) costs to a branch line (on an average cost basis). There is wide disagreement between the state viewpoint and the USRA staff viewpoint on this particular cost element. While it is impossible to trade off-branch costs for each individual branch line within the time allowed, the states insist that a detailed demonstration of the precise off-branch costs of a test series of branch lines should be made. Detailed documentation of the nature (and avoidability) of off-branch costs in these pilot tests, should settle the conflict in perspectives about the scale of the off-branch costs. In addition, the present treatment of off-branch costs in the CONSAD methodology is extremely unclear.

5. In many states the cost of dismantling the branch lines matches or exceeds the gross salvage value of the track materials. The generalized salvage rates in the CONSAD methodology do not reflect this. USRA should carefully review this situation to ensure that the net salvage values utilized are correct. For example, the costs of dismantling highway grade separations, highway grade crossings and bridges over streams must be taken into account, and this should affect the value of the branch.

6. The treatment of overhead traffic and revenues on branch lines is not carefully explained. The additional cost of circuity for bridge traffic without the branch should be treated as net revenue for the branch.

7. In cases of rehabilitation, the amortized cost should be based on an economic life that is specific to a particular branch and an interest rate that reflects CONRAIL'S cost of capital.

   Where maintenance of profitable branches has been deferred and where profit levels of such branches over the last ten years would have been sufficient to permit adequate maintenance and where rehabilitation would now represent a substantial cost, the shippers on the line should not have to pay this cost, nor suffer the loss of service due to this factor. If sufficient funds are not available under the Act, the final system plan should propose legislation to overcome this deficiency.

B. Technical Inputs

Many technical inputs into the specific line viability analyses need to be carefully checked and corroborated. The states have the most detailed knowledge of the local service system and should have input into all elements of the local service studies. The USRA staff has expressed a willingness to have its data inputs available for checking by the states. It is also essential that the results of the line viability analyses be made available to the states as soon as practicable. Both steps will permit the states to assist in making the preliminary system plan as accurate as possible. This will help the preliminary system plan avoid the accuracy pitfalls that so badly damaged the credibility of the Secretary's Report.

C. Additional Tests

The sequential viability tests of the CONSAD methodology are an exceedingly useful management test. Additional tests are required, however. Such tests should be aimed at determining what level of service or utilization would make an unprofitable branch line viable or at least cover its variable costs. We suggest that the following additional calculations at least be made for each unprofitable local service.

(a) What railroad rate surcharge would make the line profitable at existing traffic volumes;
(b) what additional railroad traffic would make the line profitable at existing rates;
(c) what reductions in service frequency crewsize or other cost can make the line profitable.

Additional tests can be devised to assist in putting a "positive" perspective on the problem and aid CONRAIL and the states in insuring the availability of the greatest amount of rail service for the public and maximum profits for the railroad. The decision-making process should be sensitive to the magnitude of the rate, volume, or service changes that could increase system profitability.

Adopted at Newport, Rhode Island Meeting November 20, 1974

Appendix C

RE-CALCULATION OF THE USRA BRANCH LINE VIABILITY TEST ON THE BEDFORD LINE

The Pennsylvania Office of State Planning and Development re-calculated the USRA branch line viability analysis of the Penn Central line from Bedford to Brookes Mills, Pa. (See Table 7.) In doing so the following changes were made:

1. The USRA normalized maintenance costs were over-stated by $2,934 for maintaining communications equipment and $2,528 for maintaining stations, neither of which is in use on the Bedford Line.
2. Branch salvage value was over-stated in the USRA analysis by using unrealistically high estimates for the scrap value of rails and ties and low estimates for the costs of their removal. The OSPD re-calculation, using current actual scrap prices and Penn Central removal costs, reduced the salvage value from $917,000 to $626,546. In addition, the USRA failed to deduct the costs of removing bridges, public highway crossings and other structures, and opening culverts, all required by Pennsylvania law. These costs were estimated by engineers of the Public Utility Commission and PennDOT, and they totaled $221,724, further reducing salvage value to $404,822. With a 10 percent return this resulted in an annual charge of $40,482 in the OSPD re-calculation.
3. The USRA included certain overhead costs (general traffic expenses and transportation superintendence) which would not be saved by abandonment. These totaled $10,689 and were ommitted from the OSPD re-calculation.
4. The USRA was unable to estimate revenue attributable to the line of overhead traffic (i.e. traffic which uses the line without originating or terminating on it). OSPD estimated that the 483 carloads of overhead traffic in 1973 generated $34,865 in net revenue which should have been credited to the line. (This figure is net of the costs associated with moving these cars on the line.)
5. The USRA deducted an annual rehabilitation charge of $13,770 to rehabilitate the line to FRA Class I, but according to the railroad it already meets this standard, so no charge was made in the re-calculation.
6. The USRA deducted an annualized cost of $62,655 for rehabilitation to Class II, but this used unrealistically high financing and life-of-investment assumptions. It also failed to adjust operating costs downward to reflect higher operating speeds possible with Class II track conditions. The OSPD re-calculation reduced rehabilitation costs by $29,081 and credited the line with a saving of $12,360 in operating costs.

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